Richmond B.C.

HUNTINGDON

Real Estate Investment Trust

Annual Report

For the three and twelve months ended December 31, 2010

Contents

Message to Unitholders

HREIT's new internalized management team accomplished several important goals in 2010. As stated to investors in April of 2010, our goals following the merger with IAT were to:

(i) sell non-core assets;
(ii) ensure SIFT compliance;
(iii) deleverage the capital structure; and
(iv) reduce operating costs through the internalization of management.

During the year, a total of 8 properties were sold for total gross sale proceeds of $28.9 million resulting in gains of approximately $7.7 million and generating net cash proceeds of $18.2 million. The sale of these properties has enabled management to reduce debt and focus on core properties with value-add potential.

With regard to SIFT compliance, we have spent considerable time on tax structuring and analysis and are comfortable that our current portfolio can become compliant with minor additional structural changes. We are also considering other tax structures that would be accretive to unitholders' value.

The capital structure has been significantly deleveraged. During 2010, HREIT paid off its Series A and Series B convertible debentures and reduced its debt to gross book value from 73.2% to 64.9%. HREIT's interest coverage ratio has improved from 1.0x to 1.6x and the average interest rate has declined by 30 basis points to 5.34%. Management is pleased with this progress and intends to continue to reduce leverage to improve the REIT's credit profile.

HREIT also reduced operating costs through the internalization of management. While many investments in technology and human resources were required in order to accomplish this goal, management believes that the internalization has resulted in approximately $3.5 million in annual savings. In addition to the accomplishment of these stated goals, HREIT improved occupancy from 82.9% to 85.2% and returned capital to unitholders in the form of a $0.12 special distribution and the repurchase of 1,431,387 units at an average cost of $6.33 per unit.

2011 promises to be another active year for HREIT. In January, HREIT made a cash and unit offer for Seattle based Fisher Communications, Inc. ("Fisher") in an effort to acquire its real estate holdings. This offer was rejected but Fisher's board is under pressure to take action to create value for shareholders and has announced the retention of an investment advisor to assist with the potential sale of their real estate holdings.

At the end of the first quarter, HREIT will be closing down its Calgary office and eliminating the Chief Operating Officer position. The REIT will be repositioned along regional operating lines in an effort to increase efficiencies and communication. For the balance of 2011, HREIT is focused primarily on the reduction of vacancies across the portfolio, improving operating performance, and reducing leverage. We will also be unrelenting in our pursuit of truly accretive growth opportunities.

HREIT is operating against the backdrop of a Canadian commercial real estate market that continues to perform very well. Interest rates remain accommodative and have given real estate investors confidence despite a tepid outlook for growth in rents and continued uncertainty regarding the health of the United States' economy.

I thank you for your continued support and look forward to updating you on our progress.

Regards,

Zachary George
President & CEO

Management's Discussion and Analysis

Section 1 Objectives and Financial Highlights

Basis of Presentation

This management's discussion and analysis of the financial position and results of operations ("MD&A") of Huntingdon Real Estate Investment Trust ("HREIT" or the "Trust") should be read in conjunction with the audited consolidated financial statements of HREIT for the year ended December 31, 2010. All information in this MD&A is dated as of March 28, 2011, except where otherwise noted.

Forward-looking information

Certain information herein contains or incorporates comments that constitute forward-looking information within the meaning of applicable securities law. Forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "should", "seeks", "approximately", "intends", "plans", "pro-forma", "estimates", or "anticipates", or the negative of those words and phrases. Forward-looking statements can also be identified by discussion of strategy, plans or intentions. There is no assurance that the events or circumstances reflected in forward-looking statements will occur or be achieved. Forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or improve and may not be realized. Forward-looking information is based upon a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond HREIT's control that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking information. These risks and uncertainties include, but are not limited to, general and local economic and business conditions; the financial condition of tenants; our ability to refinance maturing debt; leasing risks, including those associated with the ability to lease vacant space; our ability to source and complete accretive acquisitions; changes in governmental regulations and taxation; interest and currency rate fluctuations and HREIT's ability to obtain adequate insurance and financing.

Although the forward-looking statements contained in this MD&A are based upon what we believe are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Factors that could cause actual results to differ materially from those set forth in the forward-looking statements and information include, but are not limited to, general economic conditions; local real estate conditions, including the development of properties in close proximity to the Trust's properties; timely leasing of vacant space and re-leasing of occupied space upon expiration; dependence on tenants' financial condition; the uncertainties of acquisition activity; the ability to effectively integrate acquisitions; interest rates; availability of equity and debt financing; that the specified investment flow-through trust ("SIFT") rules and the normal growth guidelines are not applicable to us; and other risks and factors described from time to time in the documents filed by the Trust with the securities regulators.

All forward-looking information is as of March 28, 2011, except where otherwise noted. HREIT does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise, except as expressly required by applicable laws. Additional information about these assumptions and risks and uncertainties is contained in our filings with securities regulators, including the latest annual information form of HREIT, available on SEDAR at www.sedar.com.

Core Business

HREIT is a multi-asset class real estate investment trust providing real estate solutions to tenants who are seeking office, industrial, retail and aviation related space. HREIT earns the majority of its revenue from the lease of its leasable area to tenants.

Strategic Imperatives

Effective January 1, 2010, HREIT merged with IAT Air Cargo Facilities Income Fund ("IAT"). The key reasons for the merger include, but were not limited to, the: (i) alignment of management and unitholder interests, (ii) improved liquidity, (iii) enhanced market position and, (iv) broadened geographic diversification.

The management team has developed its strategy around four key initiatives:

Objective	Strategy
Internalized management	• Active property management focused on performance improvement • Asset management focused on reducing risk and increasing the value of assets
Focus on core portfolio	• Retain, attract and renew tenants to reduce vacancy across all markets • Initiate a significant capital expenditure program to improve the quality of leasable space and attract more tenants at competitive market rates • Divest non-core assets
Improve capital structure	• Repay all high cost short-term debt • Reduce leverage • Seek affordable financing
Effective tax structure	• Maintain a tax structure that captures value of tax assets and nurtures growth in unitholders equity • Provide tax efficiency to unitholders

Key Performance Indicators

Performance is measured by these and other key indicators:

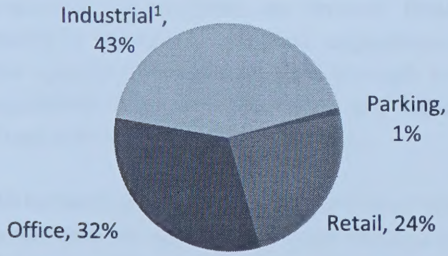
(stated in '000s, except per unit amounts)	For the three months ended Dec 31, 2010	For the three months ended Dec 31, 2009[1]	For the twelve months ended Dec 31, 2010	For the twelve months ended Dec 31, 2009[1]
Operations				
Occupancy rate (period-end)	**85.2%**	82.9%	**85.2%**	82.9%
Operating results				
Rental properties revenue	**$18,438**	$13,724	**$70,674**	$53,391
Net operating income ("NOI")	**9,537**	9,102	**39,115**	36,477
Funds from operations ("FFO")	**3,036**	(3,046)	**11,766**	2,548
Adjusted funds from operations ("AFFO")	**(1,656)**	(1,476)	**6,526**	3,032
Financing				
Weighted average mortgage interest rate (period-end)	**5.34%**	5.64%		
Interest coverage ratio	**1.3x**	NM[3]	**1.6x**	1.0x
Debt to gross book value ratio	**64.9%**	73.2%		
Per unit amounts[2]				
NOI (basic and diluted)	**$0.63**	$1.11	**$2.52**	$4.46
FFO (basic and diluted)	**0.20**	(0.37)	**0.76**	0.31
AFFO (basic and diluted)	**(0.11)**	(0.18)	**0.42**	0.37

1 The 2009 comparative period does not include IAT as the merger closed on January 1, 2010.
2 The Trust completed the consolidation of its units on a nine for one basis on February 12, 2010. The 2010 and 2009 comparatives reflect the this consolidation.
3 Not meaningful.

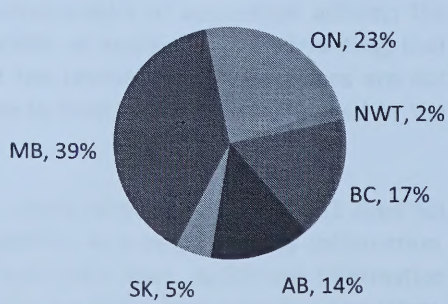
Portfolio Mix

Of HREIT's portfolio, 29% consists of ground-leased assets with the balance, 71%, being fee-simple property. The ground-leased portfolio is largely industrial in nature. The following charts indicates the proportionate share of net operating income on an asset class and geographic mix for the twelve months ended December 31, 2010 for continuing operations.

Property Net Operating Income Asset Class Mix



Property Net Operating Income Geographic Mix



1 Industrial includes ground-leased property which is industrial in nature. Approximately, 29% of the total 43% is attributable to ground-leased property.

Outlook

HREIT management continues to focus on core fundamentals including: (i) improving occupancy and (ii) capital structuring optimization.

Relationships with tenants have strengthened during 2010 which is reflected in a higher occupancy as at December 31, 2010 compared to the same date in 2009. However, there is considerable vacancy in certain regions, including Ontario – Industrial, Saskatchewan - Retail and Northwest Territories – Office. Management is making investments in HREIT's leasing and marketing operations with the intent to improve occupancy in these regions as well all as other markets.

In an effort to optimize HREIT's capital structure, management disposed of several non-core properties during 2010 and the proceeds have been used to pay down debt. At this time, all the highest rate mortgages have been repaid. Management is focused on redemption and refinancing of the series C convertible debentures which mature in March 2012.

In general, the majority of HREIT's properties are located in stable markets that are benefiting from favourable macroeconomic forces. The investment market appears extremely strong resulting in the continued compression of capitalization rates which push valuations higher. In respect of the tenant/occupier market, we are finding lease take-up indicators to be good in most of the markets the Trust is in as general business conditions have improved. In certain markets, we are aiming to re-position our leasable space to meet market demand. For example, in the Northwest Territories market, there is a strong demand for office space which is in limited supply. Management is evaluating the conversion of retail units on the lower floor of the complex into office space to satisfy market demand.

On January 1, 2011, the new Real Estate Investment Trust ("REIT") rules as set by the Canada Revenue Agency ("CRA") became effective. HREIT, in its present structure, does not qualify as a REIT due to the nature by which certain income is earned within its structure as well as certain subsidiaries that do not qualify under the REIT rules. However, the tax leakage as a result of this structural inefficiency is low as there are offsetting deductions that defer the tax liability. Management is reviewing relevant tax considerations at this time.

Further to taxation changes, other regulatory changes include the conversion to International Financial Reporting Standards ("IFRS") effective January 1, 2011. Management has worked with HREIT's auditors, KPMG LLP, and external consultants to develop an IFRS convergence plan. In Section 6, management has detailed the significant adjustments to the Canadian GAAP financial statements to comply with IFRS.

Section 2 Executing the Strategy

Our Portfolio

HREIT's assets are located in major urban centres across Canada, including Vancouver, Edmonton, Calgary, Regina and Winnipeg as well as regional areas in southern Ontario and the Northwest Territories. The composition of the portfolio of income properties is set out below:

HREIT Owned leasable area (sq ft)

					December 31, 2010		December 31, 2009[1]	
	Industrial	Retail	Office	Ground-leased	Total	%	Total	%
British Columbia	-	-	-	715,056	715,056	12.8%	35,397	0.8%
Alberta	97,680	93,990	-	267,283	458,953	8.2%	192,436	4.2%
Saskatchewan	101,360	105,841	84,243	30,364	321,808	5.8%	289,482	6.3%
Manitoba	531,622	447,862	920,822	576,961	2,477,267	44.3%	2,430,665	53.0%
Ontario	545,530	876,648	103,179	-	1,525,357	27.3%	1,528,347	33.3%
Northwest Territories	-	15,475	81,787	-	97,262	1.7%	107,805	2.4%
Total	1,276,192	1,539,816	1,190,031	1,589,664	5,595,703	100%	4,584,132	100%
Percentage	22.8%	27.5%	21.3%	28.4%	100%			
Total as at Dec 31, 2009	1,327,812	1,584,457	1,197,308	474,555	4,584,132			
Percentage	29.0%	34.6%	26.1%	10.4%	100%			

1 Since the merger between HREIT and IAT was effective as of January 1, 2010, the amounts noted as at December 31, 2009 reflect only HREIT and exclude IAT.

A summary of our occupancy for the portfolio is noted in the table below:

HREIT Occupancy Summary

				December 31, 2010		Dec 31, 2009[1]
	Industrial	Retail	Office	Ground-leased	Total	**%**
British Columbia	-	-	-	86.6%	88.6%	97%
Alberta	100.0%	88.5%	-	79.9%	86.0%	91%
Saskatchewan	100.0%	77.6%	97.5%	100.0%	92.0%	94%
Manitoba	90.6%	87.9%	88.4%	84.3%	87.8%	86%
Ontario	59.9%	84.0%	100.0%	-	76.4%	74%
Northwest Territories	-	100.0%	75.5%	-	79.4%	83%
Total	81.3%	85.3%	89.1%	85.6%	**85.2%**	82.9%
Total as at Dec 31, 2009	79%	83%	88%	80%	83%	

1 Since the merger between HREIT and IAT was effective as of January 1, 2010, the amounts noted as at December 31, 2009 reflect only HREIT and exclude IAT.

Results of Operations

Capital Structure

The internalization of management brought a renewed focus on capital structure. Prior to the merger, HREIT was significantly levered with minimal free cash flow. Since the merger, credit metrics have improved dramatically. The following table illustrates the improvements in credit metrics from 2009 to 2010:

Capital Structure Improvement

(in $000s, except percentage amounts)	2010	2009
Weighted average cost of mortgage debt	5.34%	5.64%
Debt repaid[1]	$21,397	$8,867
Total debentures outstanding	48,016	$58,871
Total mortgage loans outstanding[2]	238,388	241,326
Debt to gross book value ratio[3]	64.9%	73.2%
Market capitalization of Units[4]	$103,039	$35,931

1 Excludes mortgages repaid through refinancing but includes convertible debentures retired and convertible debentures acquired and cancelled.

2 Includes continuing and discontinuing operations at gross value before netting of transaction costs.

3 Based on the sum of total mortgage loans (continuing and discontinued) and convertible debentures at maturity value to total assets.

4 As at December 31.

Leasing Performance

The following indicators relate to HREIT's leasing profile:

HREIT Leasing Profile Key Statistics

	December 31, 2010
Average Remaining Lease Term	5.12 yrs
Average Tenant Size	7,216 sf
% share of leased space expiring in next 12 months	19%[1]

1 Includes month-to-month leases.

The weighted average remaining lease term by asset class and geography are set out below:

HREIT Weighted Average Remaining Lease Term (yrs)

	December 31, 2010				
	Industrial	Retail	Office	Ground-leased	Total
British Columbia	-	-	-	3.41	3.41
Alberta	11.00	6.06	-	1.80	4.97
Saskatchewan	2.05	1.90	3.40	3.76	2.58
Manitoba	3.86	5.37	4.39	4.33	5.19
Ontario	12.71	3.98	5.97	-	6.82
Northwest Territories	-	4.42	2.06	-	3.11
Total	7.81	4.52	4.85	3.83	**5.12**

Management has focused more recently on developing its leasing and marketing team as well as working with third party leasing agents to strengthen relationships with tenants to maintain long lease terms with tenants with good covenant strength.

Vacancy Schedule

The tenancies of HREIT expire over various periods which reflects both a strength of the HREIT's portfolio while also highlighting some operational risks.

On average, the remaining lease term is about 5.12 years which reflects a solid duration in HREIT's leases. However, approximately 5% of HREIT's tenancies are on a month-to-month basis. Further, 2011 expiries are about 14% of the current occupied portfolio. The largest of these renewal risks are in the following segments: Ontario – Retail, British Columbia – Ground-leased and Northwest Territories – Office..

Management has committed additional resources to the in-house leasing and marketing team to work with tenants to sign long-term leases and avoid short-term and/or month-to-month tenancies. The following tables illustrate the lease expiries as at December 31, 2010 on an asset class and geographic basis.

HREIT Lease Expiries by Asset Class

	Month-to-month	2011	2012	2013	2014	2015	2016 and beyond	Total
Industrial	-	4%	22%	5%	16%	5%	49%	100%
Retail	10%	19%	15%	6%	18%	4%	30%	100%
Office	5%	10%	12%	28%	5%	8%	32%	100%
Ground-leased	2%	19%	19%	21%	8%	5%	24%	100%
Total	5%	14%	17%	14%	13%	5%	33%	100%

HREIT Lease Expiries by Province

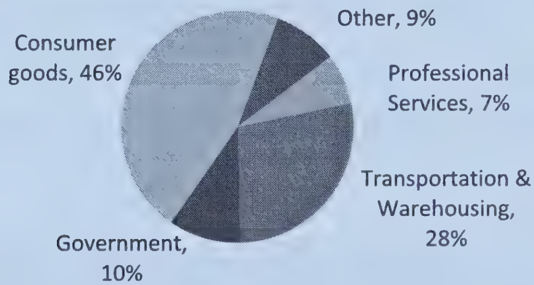
	Month-to-month	2011	2012	2013	2014	2015	2016 and beyond	Total
British Columbia	3%	24%	20%	25%	4%	3%	21%	100%
Alberta	-	12%	17%	24%	13%	6%	27%	100%
Saskatchewan	5%	7%	47%	5%	13%	22%	-	100%
Manitoba	2%	11%	11%	15%	21%	4%	36%	100%
Ontario	8%	15%	16%	6%	6%	4%	46%	100%
Northwest Territories	51%	10%	4%	4%	8%	7%	16%	100%
Total	5%	14%	17%	14%	13%	5%	33%	100%

Tenant Profile

HREIT's tenant base includes a wide range of high-quality tenants such as governments, large international companies and small entrepreneurial businesses across Canada. With approximately 600 tenants, our risk exposure to any single tenant is low.

The following chart illustrates the diversity of our tenant base, broken down by the proportionate share of leased area by tenant. Management believes that this diversified tenant base is a strength of the Trust.

Tenant Industry Classification based on Leased Area (sq ft)
At December 31, 2010



Income Statement Analysis

The results of operations for the three and twelve months ended December 31, 2010 and for the same period in 2009 are set out below:

(stated in '000s)	For the three months ended Dec 31, 2010	Dec 31, 2009[1]	For the twelve months ended Dec 31, 2010	Dec 31, 2009[1]
Revenues				
Rental properties revenue	**$18,438**	$13,724	**$70,674**	$53,391
Interest and other income	**274**	32	**1,155**	1,422
	18,712	13,756	**71,829**	54,813
Expenses				
Property operating costs	**9,207**	8,978	**33,869**	26,232
Finance expense	**4,830**	5,122	**20,337**	21,010
Trust expense	**3,062**	4,463	**6,187**	7,033
Amortization	**5,673**	4,489	**21,244**	14,484
Bargain purchase gain	**2,863**	-	**(2,393)**	-
	25,635	23,052	**79,244**	42,527
(Loss) income from continuing operations before income taxes	**(6,923)**	(9,296)	**(7,415)**	(13,946)
Income tax recovery	**1,293**	1,566	**2,103**	1,443
(Loss) from continuing operations	**(5,630)**	(7,730)	**(5,312)**	(12,503)
(Loss) income from discontinued operations	**(1,248)**	3,736	**7,649**	5,070
Net (loss) income and comprehensive (loss) income	**(6,878)**	(3,994)	**2,337**	(7,433)
Attributable to unitholders	**(6,889)**	(3,994)	**2,264**	(7,433)
Attributable to non-controlling interests	**11**	-	**73**	-

1 The 2009 comparative period does not include IAT as the merger closed on January 1, 2010.

Rental property revenue

For the three months ended December 31, 2010, rental property revenues from continuing operations were $18,438,000 compared to $13,724,000 for the same period in 2009, representing an increase of $4,714,000 or 34%. For the twelve months ended December 31, 2010, rental property revenues from continuing operations were $70,674,000 compared to $53,391,000 for the same period in 2009, representing an increase of $17,283,000 or 32%. The primary driver for the increase in revenue was the acquisition of IAT on January 1, 2010, which resulted in the inclusion of 18 additional properties.

Interest and other income

For the three months ended December 31, 2010, interest and other income was $274,000 compared to $32,000 for the same period in 2009, representing an increase of $242,000 or well over 100%. The increase in the quarterly periods is the result of holding higher cash balances during the three months ended December 31, 2010 and the unrealized gain in Fisher.

For the twelve months ended December 31, 2010, interest and other income was $1,155,000 compared to $1,422,000 for the same period in 2009, representing a decrease of $267,000 or 19%. The decrease is the result of significant volatility in the cash balances held during 2010 which limited the Trust's ability to fund to earn interest income.

Property operating costs

For the three months ended December 31, 2010, property operating costs were $9,207,000 compared to $8,978,000 for the same period in 2009, representing an increase of $229,000 or 3%. Property operating costs consist of common area maintenance, utilities, insurance, property tax, ground rent, property management expense and other costs. The majority of these costs are recoverable from tenants.

For the twelve months ended December 31, 2010, property operating costs were $33,869,000 compared to $26,232,000 for the same period in 2009, representing an increase of $7,637,000 or 29%. The major driver for the increase is the merger with IAT, which resulted in the inclusion of 18 additional properties.

Finance expense

For the three months ended December 31, 2010, finance expense was $4,830,000 compared to $5,122,000 for the same period in 2009, representing a decrease of $292,000 or 6%. Finance expense includes interest expense on the mortgages and convertible debentures. Finance expense decreased for the quarter as a result of the lower weighted average cost of debt for the overall portfolio and a lower overall debt burden.

For the twelve months ended December 31, 2010, finance expense was $20,337,000 compared to $21,010,000 for the same period in 2009, representing a decrease of $673,000 or 3%. Finance expense declined as a result of the repayment of $10.6 million of two series of convertible debentures during 2010, which were at a higher rate of 8%, and offset by the interest expense relating to the IAT portfolio.

Trust expense

For the three months ended December 31, 2010, trust expense was $3,062,000 compared to $4,463,000 for the same period in 2009, representing a decrease of $1,401,000 or 31%. For the twelve months ended December 31, 2010, trust expense was $6,187,000 compared to $7,033,000 for the same period in 2009, representing a decrease of $846,000 or 12%. For the three months ended December 31, 2009, trust expense included significant one-time transaction expenses of $3,400,000 in connection with the acquisition of IAT.

There are various one-time items that have affected trust expense. These one-time items are noted below:

(stated in '000s)

	For the three months ended		For the twelve months ended	
	Dec 31, 2010	Dec 31, 2009	Dec 31, 2010	Dec 31, 2009
Trust expense – as stated	**$3,062**	$4,463	**$6,187**	$7,033
One-time items:				
Transaction costs	**(250)**	(3,400)	**(250)**	(3,400)
Legal claim	**(1,400)**	-	**(1,400)**	-
Internalization costs	**(338)**	-	**(1,090)**	-
Trust expense – adjusted for one-time items	**$1,074**	$1,063	**$3,447**	$3,633

For the three and twelve month periods ended December 31, 2010, the legal claim of $1,400,000 is in regards to a legal action which is described further under "*Commitments and Contingencies*". Further, deal costs in relation to the tax restructuring and bid for Fisher amounted to approximately $250,000.

Amortization

For the three months ended December 31, 2010, amortization expense was $5,673,000 compared to $4,489,000 for the same period in 2009, representing an increase of $1,184,000 or 26%. Amortization expense includes the amortization of income properties as well as deferred leasing costs and other intangibles. Amortization expense increased as a result of having a larger combined portfolio, which included IAT and HREIT properties.

For the twelve months ended December 31, 2010, amortization expense was $21,244,000 compared to $14,484,000 for the same period in 2009, representing an increase of $6,760,000 or 47%. Amortization expense increased as a result of having a larger combined portfolio, which included IAT and HREIT properties.

Bargain purchase gain

For the three months ended December 31, 2010, bargain purchase adjustment was $2,863,000 compared to $nil for the same period in 2009.

For the twelve months ended December 31, 2010, bargain purchase gain was $2,393,000 compared to $nil for the same period in 2009. The bargain purchase gain relates to the acquisition of IAT and is discussed in greater detail under "*Acquisition of IAT Air Cargo Facilities Income Fund*".

Income tax recovery

For the three months ended December 31, 2010, future income tax recovery was $1,293,000 compared to a provision of $1,566,000 for the same period in 2009, representing a decrease of $273,000 or 17%. For the twelve months ended December 31, 2010, income tax recovery was $2,103,000 compared to a provision of $1,443,000 for the same period in 2009, representing an increase of $660,000 or 46%. The change in the income tax recovery is the result of recognizing the Trust`s tax assets to offset taxable income earned during the period.

Discontinued operations

For the three months ended December 31, 2010, loss from discontinued operations was $1,248,000 compared to income of $3,736,000 for the same period in 2009, representing a decrease of $4,984,000 or well over 100%. For the twelve months ended December 31, 2010, income from discontinued operations was $7,649,000 compared to $5,070,000 for the same period in 2009, representing an increase of $2,579,000 or 51%.

The properties that are held for sale or have been sold are described in greater detail under *Dispositions.*

Funds from operations

Funds from operations is a supplemental non-GAAP financial measure of operating performance widely used by the real estate industry. The Real Property Association of Canada ("REALpac") defined FFO as net income with most non-cash expenses added back. The Trust includes the amortization of furniture and fixtures in addition to the amortization of income properties in its calculation of FFO.

Management considers FFO a meaningful supplemental measure of operating performance as it primarily rejects the assumption that the value of real estate investments diminishes predictably over time and it adjusts for items included in GAAP earnings that may not necessarily be the best determinants of operating performance (such as gains or losses on the sale of, and provisions for impairment against, long-lived real estate investments).

The following table provides a calculation of FFO from total loss / income and comprehensive loss / loss attributable to unitholders for the three and twelve month periods ended December 31, 2010 and 2009.

(stated in '000s)

	For the three months ended		For the twelve months ended	
	Dec 31, 2010	**Dec 31, 2009**	**Dec 31, 2010**	**Dec 31, 2009**
(Loss) income and comprehensive (loss) income	**($6,889)**	($3,994)	**$2,264**	($7,433)
Add (deduct):				
Amortization	**5,464**	4,068	**21,835**	16,486
Future income tax expense (recovery)	**1,816**	(1,690)	**(1,409)**	(1,599)
Gain on sale	**(218)**	(1,430)	**(8,531)**	(4,906)
Bargain purchase adjustment (gain)	**2,863**	-	**(2,393)**	-
Funds from operations	**$3,036**	($3,046)	**$11,766**	$2,548

The increase in FFO for both the three and twelve months ended December 31, 2010 compared to the same period in 2009 is a result of the acquisition of the IAT and its 18 property portfolio. The gains from this acquisition were mitigated by one-time costs of as described under *"Property Operating Cost"* and *"Trust Expense"* sections.

Adjusted Funds from operations

Adjusted funds from operations is a supplemental non-GAAP financial measure of operating performance widely used by the real estate industry. AFFO is indicative of available cash flow after

capital reinvestment transactions. HREIT's calculation of AFFO begins with FFO adjusted for the non-cash components of rental revenues, lease acquisition costs and maintenance capital expenditures. The method that is used by HREIT for calculating AFFO may differ from other issuers' methods and accordingly, may not be comparable with measures used by other issuers.

(stated in '000s)

	For the three months ended		For the twelve months ended	
	Dec 31, 2010	**Dec 31, 2009**	**Dec 31, 2010**	**Dec 31, 2009**
Funds from operations	**$3,036**	($3,046)	**$11,766**	$2,548
Add (deduct):				
Vendor head lease income and revenue	**196**	510	**352**	620
Amortization of deferred financing costs	**1,035**	1,453	**1,321**	1,453
Straight-line rent	**(278)**	184	**(483)**	(635)
Amortization of above-market rent	**(38)**	217	**193**	287
Amortization of below-market rent	**43**	(263)	**(154)**	(374)
Accretion	**1,529**	1,620	**1,971**	2,171
Unit based compensation	**251**	232	**585**	331
Change in fair value of swap	**148**	24	**345**	4
Unrealized gain on investment	**(105)**	-	**(105)**	-
Capital expenditures	**(7,473)**	(2,407)	**(9,265)**	(3,373)
Adjusted funds from operations	**($1,656)**	($1,476)	**$6,526**	$3,032

Consistent with the change in FFO, the change in AFFO for both the three and twelve month periods ended December 31, 2010 compared to the same periods in 2009 is result of the acquisition of the IAT and its 18 property portfolio offset by one-time items described under *"Property Operating Cost"* and *"Trust Expense"*.

Net operating income

Net operating income, a supplemental non-GAAP financial measure, is defined as lease revenue, including operating cost recoveries and fees and other recoveries, less operating costs and leasing and marketing fees, and excludes amortization, impairment charges, accretion, general and administrative expenses, interest expense, and recovery of income taxes. Management considers NOI to be an appropriate supplemental performance measure because NOI reflects the operating performance of the real estate portfolio. However, NOI should not be viewed as an alternative measure of financial performance since it does not reflect trust expenses, interest expense, amortization, impairment charges and accretion costs and capital expenditures that could materially impact results from operations. The following table provides a calculation of NOI from total loss / income and comprehensive loss / loss attributable to unitholders for the three and twelve month periods ended December 31, 2010 and 2009.

(stated in'000s)

	For the three months ended		For the twelve months ended	
	Dec 31, 2010	**Dec 31, 2009**	**Dec 31, 2010**	**Dec 31, 2009**
(Loss) income and comprehensive (loss) income	**($6,889)**	($3,994)	**$2,264**	($7,433)
Add (deduct):				
Finance expense	**4,956**	4,739	**21,293**	25,173
Trust expense	**3,192**	7,448	**7,128**	10,235
Amortization	**5,464**	4,068	**21,835**	16,486
Income tax provision (recovery)	**443**	(1,732)	**(1,326)**	(1,641)
Gain on sale	**(218)**	(1,430)	**(8,531)**	(4,906)
Interest and other income	**(274)**	2	**(1,155)**	(1,437)
Bargain purchase adjustment (gain)	**2,863**	-	**(2,393)**	-
Net operating income	**$9,537**	$9,101	**$39,115**	$36,477

The increase in NOI is the combined result of the inclusion of IAT's operations and improved quarterly performance during the three and twelve month periods ended December 31, 2010 from the HREIT properties compared to the same periods in 2009.

Normal Course Issuer Bid

In April 2010, management initiated a normal course issuer bid ("NCIB") to purchase up to approximately 1.4 million units and approximately $4.7 million series C convertible debentures. The NCIB was the result of management's belief that HREIT was undervalued and that it was accretive to unitholders' value to purchase HREIT's units and debentures. Since May 2010, HREIT has purchased the following amounts of units and series C convertible debentures:

	Units			Series C Debentures		
	Quantity	**Cost**	**Average Cost**	**Quantity**	**Cost**	**Average Cost**
May 2010	2,900	$15,805	$5.45	10,000	$9,700	$97.00
June 2010	323,250	1,850,873	5.73	164,000	160,154	97.66
July 2010	100,350	587,831	5.65	110,000	108,751	98.86
August 2010	157,900	934,788	5.92	-	-	-
September 2010	51,025	323,602	6.34	-	-	-
October 2010	46,625	311,284	6.68	-	-	-
November 2010	139,000	946,786	6.81	-	-	-
December 2010	181,625	1,227,609	6.76	-	-	-
January 2011	428,712	2,882,592	6.72	-	-	-
Total / Average	1,431,387	$9,060,461	$6.33	284,000	$278,605	$98.10

The price per unit and series C convertible debenture as at December 31, 2010 was $7.01 per unit and $101.00, respectively. In light of these price levels, the purchase of units and convertible debentures at an average cost of $6.33 and $98.10, respectively, is a reflection of the positive contribution to unitholder.

Distributions

HREIT announced a special cash distribution of $0.12 per unit which was paid on December 15, 2010 to unitholders of record on November 24, 2010. The distribution is the result of taxable capital gains earned from the disposal of properties during 2010 and also represents a return of capital.

Financial Condition

HREIT's primary sources of capital are cash generated from operating, financing and investment activities. Management expects to meet all of the obligations through current cash and cash equivalents, cash flows from operations and mortgage re-financings.

In the fourth quarter, there were approximately $32.9 million of debt maturities. Of these maturities, $10.0 million of the mortgages were repaid. Another $7.3 million of the mortgages were renewed on a six month floating rate basis as the properties that these mortgages related to were set to be sold in the coming months. The balance of the maturities were either renewed or refinanced at rates ranging from 5.30% to 5.95% on terms averaging 5 years.

The following table provides an overview of the Trust's cash flows from operating, investing and financing activities for the three and twelve month periods ended December 31, 2010 and for the comparative periods in 2009.

(stated in '000s)

	For the three months ended		For the twelve months ended	
	Dec 31, 2010	**Dec 31, 2009**	**Dec 31, 2010**	**Dec 31, 2009**
Net change in cash related to:				
Operations	**$12,431**	$3,788	**$12,254**	$7,159
Financing	**(13,475)**	(3,314)	**(22,558)**	(5,326)
Investing	**(9,801)**	(1,986)	**(6,946)**	(3,373)
Discontinued operations	**2,467**	1,238	**18,343**	37
Net change in cash during the period	**($8,378)**	($274)	**$1,093**	($1,503)

The improvement in the net change in cash during the twelve months ended December 31, 2010 compared to the same period in 2009 is the result of the following factors:

- Operations – merger with IAT and ongoing billings to tenants in respect of operating cost adjustments;
- Financing – repayment of mortgages and convertible debentures;
- Investing – represents investment into our properties and into our investment in Fisher; and
- Discontinued operations – the non-recurring source of cash from the sale of non-core properties.

The weakening in the net change in cash during the three months ended December 31, 2010 compared to the same period in 2009 is the result of the repayment of $10.0 million of mortgages as well as significant capital expenditures made to certain properties in the portfolio offset by improvements in cash flow in operations and discontinued operations.

HREIT's cash from operations is cyclical rather than seasonal as it pertains to the real estate industry. To date, HREIT has been able to meet all of its various capital and other cash requirements from its own sources of cash. As at March 26, 2011, HREIT has approximately $16 million of cash and cash equivalents. None of this cash is restricted.

The following chart illustrates HREIT's current liquidity along with future debt maturities and payments. The largest of the future payments in 2012 is the $48 million of series C convertible debentures.

Debt

Certain key measures of HREIT's debt are:

	Dec 31, 2010	Dec 31, 2009
Average interest rate	**5.34%**	5.64%
Debt to gross book value of assets	**64.9%**	73.2%
Interest coverage ratio	**1.6x**	1.0x
Proportion of mortgage debt due in current year	**16.8%**	30.4%
Average term to maturity of mortgage debt (yrs)	**5.19 yrs**	5.62 yrs
Variable rate debt as a % of total debt	**17.4%**	20.0%

HREIT's debt strategy has remained consistent and that is to continuously improve the credit risk of the Trust. Management's objectives are to pay out or re-finance all high-rate debt, access the lowest cost of debt with the most flexible terms and to have a debt maturity schedule spread evenly over future years so as to manage interest rate risk. HREIT's debt structure, for continuing operations, is as follows. Note that the amounts are stated at their face value.

(stated in '000s)	Dec 31, 2010	Dec 31, 2009
Conventional secured mortgages	**$229,232**	$219,342
Secured convertible debentures – 8%, due March 22, 2010	-	5,250
Secured convertible debentures – 8%, due June 30, 2010	-	5,321
Unsecured convertible debentures – 7.5%, due March 31, 2012	**48,016**	48,300
Total	**$277,248**	$293,000

Since December 31, 2009, management has repaid two of the three series of convertible debentures.

Commitments and contingencies

The following are the estimated maturities of the Trust's financial liabilities from continuing operations, excluding interest rate swap liability, with convertible debentures disclosed at their face value as at December 31, 2010 as well as the future minimum lease payments:

(stated in $000s)	Total	2011	2012	2013	2014	2015	After 2016
Accrued payables	$13,454	$13,454	$-	$-	$-	$-	$-
Mortgage loans	229,231	38,619	53,734	39,345	9,755	46,576	41,202
Convertible debentures	48,016	-	48,016	-	-	-	-
Ground-lease payments	62,782	4,374	4,392	4,407	4,412	4,412	40,785

During the third quarter of 2010, a $2.1 million court judgment was held against the Trust and SCPL relating to Cityplace, a property sold in 2009. SCPL was the asset manager of Trust at the time of the claim. HREIT has filed an appeal to the judgment.

In the first quarter of 2011, it was determined upon agreement with SCPL, to share the liability. HREIT agreed to pay two-thirds into trust, approximately $1.4 million, pending appeal. SCPL assumed the balance.

The judgment against HREIT and SCPL was on a joint and several basis. There is a potential contingency against HREIT for the balance paid by SCPL if SCPL is successful in their own separate appeal. SCPL has launched their own appeal to have themselves removed as a defendant from the claim. The final outcome with respect to SCPL's appeal cannot be predicted at the present time and no provision has been made by HREIT.

Acquisition of IAT Air Cargo Facilities Income Fund

On January 1, 2010, HREIT and IAT announced the completion of the combination of HREIT and IAT pursuant to the combination agreement dated August 17, 2009, as amended by amending agreements dated October 27, 2009 and November 24, 2009 (the "Combination Agreement"), as described in the joint management information circular of HREIT and IAT dated November 5, 2009. Under the terms of the Combination Agreement, HREIT acquired all of the issued and outstanding units of IAT in exchange for 9.75 units of HREIT for each unit of IAT. Certain holders of units of IAT were offered cash payment in lieu of units of HREIT.

The acquisition has been accounted for using CICA Handbook Section 1582 ("Section 1582") Business Combinations in which the purchase consideration is allocated to the estimated fair values of the assets and liabilities assumed as of January 1, 2010.

(stated in '000s)		
Purchase price		$33,933
Net assets acquired		
Cash	4,889	
Non-cash working capital	(1,154)	
Net investments in income properties	55,529	
Other assets	73	
Mortgage loans	(13,000)	
Future income taxes	(6,647)	
Other liabilities	(3,364)	
Fair value of net assets acquired		36,326
Bargain purchase gain		$2,393

The bargain purchase gain reflects the difference between the consideration paid by HREIT and the fair value of the IAT net assets. The gain is the result of the value of consideration, HREIT's unit value as at January 1, 2010, the exchange ratio and the fair value of the IAT net assets. Management believes that there was a significant discount in the unit price that did not capture IAT's fair value which resulted in this bargain purchase gain.

Under Section 1582, transaction costs are expensed to the income statement. In 2009, HREIT had not yet adopted Section 1582 which resulted in the transaction costs to be deferred on the balance sheet. The retroactive restatement resulted in $3.4 million of previously reported prepaid expenses to be treated as expenses which were then reflected in unitholders' equity as at December 31, 2009.

Dispositions

The following table lists properties that have been sold or are under binding sale agreements or are held for sale as at December 31, 2010.

Status	Closing date	Property	Gross sale proceeds	Gain on sale	Mortgage payable	Property type	sq. ft.
Sold:							
	Feb 22, 2010	67 Scurfield, Winnipeg, MB	$4,200,000	$453,000	$2,767,000	Office	25,745
	June 9, 2010	351 Smith Street, Winnipeg, MB	2,050,000	738,000	1,102,000	Parking	-
	April 1, 2010	Vista Landing, Calgary, AB	12,015,000	3,914,000	3,390,000	Retail	62,099
	April 23, 2010	Consolidated Real Estate Services Inc	450,000	80,000	-	Services	-
	June 3, 2010	170 Water Street, Winnipeg, MB	3,500,000	1,361,000	1,545,000	Parking	-
	June 28, 2010	1300 Church Avenue, Winnipeg, MB	1,600,000	628,000	980,000	Industrial	40,600
	Aug 3, 2010	Chemanius properties, BC	4,600,000	522,000	2,526,000	Retail	35,397
	Nov 8, 2010	336 Young, Winnipeg, MB	$455,000	1,000	$235,000	Parking	-
			$28,870,000	$7,697,000	$12,545,000		163,841
Under binding sale agreement:							
		Deer Park, Red Deer, AB	16,100,000	$4,500,000	6,700,000	Retail	57,806
Held for sale:							
		125–185 First Street, Cochrane, AB	n/a	n/a	1,905,000	Retail	21,886
		Harbourview Village, Kenora, ON	n/a	n/a	550.000	Retail	12,464
			n/a	n/a	2,455,000		34,350

The properties noted as held for sale are subject to conditional offers to purchase the properties.

Related party transactions

Related party transactions have occurred in the normal course of operations and are measured at the exchange amount which is the amount established and agreed by the related parties. SCPL and, its parent company, 2668921 Manitoba Ltd., were related parties of the Trust up to February 23, 2010, the date on which the property management agreement expired.

Property management agreement

The Trust entered into a property management agreement on February 23, 2005, for an initial term expiring February 23, 2010, with SCPL. Under the property management agreement, SCPL administered the day-to-day operations of the Trust's portfolio of income properties. The Trust paid property management fees equal to 4% of gross receipts from the income properties owned by the Trust. SCPL was also entitled to leasing fees on new leases of 3% to 5% of base rental payments and leasing fees on renewals of 1.5% to 2.5% of base rental payments and to tenant improvement and renovation fees equal to 5% of the total cost of such work.

The property management agreement was not renewed by the Trust and expired on February 23, 2010 as the Trust internalized all property management services. The following schedule reflects fees incurred by the Trust for property management services paid to SCPL:

(stated in '000s)

	For the three months ended		For the twelve months ended	
	Dec 31, 2010	**Dec 31, 2009**	**Dec 31, 2010**	**Dec 31, 2009**
Property Management	$-	$398	**$269**	$1,334
Leasing fees	-	444	**18**	986
Renovation fees	-	-	**4**	108
Total	$-	$842	**$291**	$2,428

Services agreement

The Trust entered into a services agreement on February 23, 2005, for an initial term expiring February 23, 2010, with SCPL which could be terminated on 30 days written notice. Under the services agreement, SCPL provided the Trust management and support services for the administration of the day-to-day activities of the Trust. The Trust terminated the services agreement on February 12, 2010 and has internalized all management and support services.

Fees for services rendered by SCPL to the Trust pursuant to the services agreement were calculated at 0.3% of gross book value of the Trust, excluding cash. Service fee expense of $nil and $165,000 for the three and twelve months ended December 31, 2010, respectively, is included in trust expenses.

Consolidated Real Estate Services Inc.

SCPL provided executive management services and other assistance to Consolidated Real Estate Services Inc. ("CRESI") and received an annual cost recovery fee of $150,000. This agreement was terminated January 1, 2010. Cost recovery of $nil for the three and twelve months ended December 31, 2010 is included in property management costs within discontinued operations.

CRESI provided accounting services in regard to 15 condominium properties managed by SCPL in 2009, the cost of which is reimbursed. During the three and twelve months ended December 31, 2010, the cost of services reimbursed was $nil.

Quarterly Information

The following table show quarterly information since January 1, 2009.

(stated in '000s, except per unit amounts)	Q4'10	Q3'10 restated	Q2'10 restated	Q1'10 restated	Q4'09 restated	Q3'09 restated	Q2'09 restated	Q1'09 restated
Total revenue	**$18,712**	$16,747	$18,425	$17,945	$13,756	13,556	13,873	13,627
(Loss) income from continuing operations	**(5,630)**	(1,693)	(1,514)	3,524	(7,730)	408	(3,030)	(2,152)
(Loss) income and comprehensive income (loss)	**(6,878)**	(100)	4,423	4,891	(3,994)	(440)	(223)	(2,777)
Per Unit								
(Loss) income from continuing operations								
- basic and diluted	**(0.37)**	(0.11)	(0.10)	$0.22	(0.94)	0.05	(0.37)	(0.26)
(Loss) income and comprehensive income (loss)								
- basic and diluted	**(0.46)**	(0.01)	0.28	0.31	(0.49)	(0.05)	(0.03)	(0.34)

Annual Information

The following table provides selected annual information for the past three years:

(stated in '000s, except per unit amounts)	2010	2009 Restated[1]	2008[2]
Rental properties revenues	**$70,674**	$53,391	$58,351
(Loss) income from continuing operations	**(5,312)**	(12,503)	(7,392)
(Loss) income and comprehensive income (loss)	**2,337**	(7,433)	(9,626)
Total assets	**441,086**	410,085	555,343
Debt[3]	**272,662**	270,937	287,781
Distributions	**1,788**	-	15,198
Per Unit			
(Loss) income from continuing operations			
- basic and diluted	**($0.35)**	($1.53)	($0.92)
(Loss) income and comprehensive income (loss)			
- basic and diluted	**$0.14**	($0.91)	($1.19)

1. 2009 results restated for retrospective application of change in accounting policy relating to business combinations, adjustment for direct finance lease, and change in discontinued operations.
2. 2008 results are per the December 31, 2009 audited financial statements.
3. Includes mortgage loans payable from continuing operations and convertible debentures.

Section 3 Disclosure Controls and Procedures

The Trust's management, under the supervision of its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"). DC&P are designed to provide reasonable assurance that information required to be disclosed by the Trust in annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation. Furthermore, DC&P are designed to ensure that information required to be disclosed by the Trust in annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Trust's management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. The Trust has adopted the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations for the design of its ICFR.

Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Trust's DC&P as of December 31, 2010, and based on that evaluation have concluded that the Trust's DC&P are not effective as of December 31, 2010 for the foregoing purposes due to the weaknesses discussed below for ICFR.

As a result of a change in management that occurred on January 1, 2010, in connection with the completion of the combination involving HREIT and IAT, HREIT implemented a change in asset and property management services from SCPL to an internalized HREIT management team. These changes in property management and asset management occurred during the three months ended March 31, 2010. The impact of the transition and the requirement to review several historical issues, during the three months ended December 31, 2010, placed substantial demands on key financial personnel. As a result of these demands, certain key ICFR which management had designed did not operate as intended, and certain errors in financial recording and reporting were discovered.

The CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Trust's ICFR and have identified the following material weakness in the operation of the Trust's ICFR as of December 31, 2010. The Trust did not have a sufficient number of personnel with the required technical knowledge and/or the requisite oversight of such personnel to address the impact of the transition and certain historical issues that arose during the three months ended December 31, 2010.

Following the completion of the annual audit process of the financial statements for the year ended December 31, 2010, management implemented several remediation actions that are expected to significantly improve the Trust's ICFR and are intended to address the control deficiency. The remediation efforts include the provision of greater resources to ICFR, periodically utilizing outside consultants for assistance, developing in-house expertise and recruiting new personnel with the necessary expertise. Despite the ICFR deficiency identified, management has concluded that the consolidated financial statements of the Trust for the year ended December 31, 2010 and 2009 fairly present the financial condition, the results of operations and cash flows of the Trust in accordance with GAAP.

The Trust is required to disclose herein any change in the Trust's ICFR that occurred during the period beginning on October 1, 2010 and ended on December 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Trust's ICFR. Other than the remediation efforts set out above, which were implemented subsequent to December 31, 2010, there were no material changes in ICFR during the three months ended December 31, 2010, which have materially affected, or are reasonably likely to materially affect, the Trust's ICFR.

Section 4 Risk and Uncertainties

For a full list and explanation of our risks and uncertainties, please refer to our Annual Information Form for the year ended December 31, 2010, available on SEDAR at www.sedar.com.

Section 5 Critical Accounting Policies

Changes in accounting policies

Business Combinations

In January 2009, the CICA issued CICA Handbook Section 1582, "Business Combinations", Section 101, "Consolidations", and Section 1602, "Non-controlling Interests". These sections replace the former CICA Handbook Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

CICA Handbook Section 1582 establishes accounting standards for a business combination. It provides the Canadian equivalent to IFRS 3, "Business Combinations". The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

CICA Handbook Section 1601 establishes accounting standards for preparation of consolidated financial statements.

CICA Handbook Section 1602 establishes accounting standards for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27, "Consolidated and Separate Financial Statements."

CICA Handbook Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year.

HREIT has adopted these policies effective January 1, 2010.

Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Areas requiring significant management estimates include asset retirement obligations, future tax rates, asset impairment and the economic life of depreciable long-lived assets. These estimates are reviewed periodically (at least annually), and, as adjustments become necessary, they are reported in earnings in the period in which they become known. The Trust's significant accounting policies are described in Note 2 of the consolidated financial statements for the year ended December 31, 2010, available on SEDAR at www.sedar.com.

Management has assessed that there are no indications of impairment in income properties nor intangible assets as at December 31, 2010.

FUTURE CHANGES IN ACCOUNTING POLICIES

HREIT monitors new CICA accounting pronouncements to assess the applicability and impact, if any, these new pronouncements may have on the consolidated financial statements and note disclosures.

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed a changeover date of January 1, 2011 as the date in which all publicly accountable enterprises, including HREIT, will be required to report all interim and annual financial statement information in accordance with IFRS. The impact of the adoption of IFRS on the consolidated financial statements of HREIT is significant and, as such, HREIT has developed and is in the final stages of completion of its convergence plan in order to transition its financial statement reporting, presentation and disclosure for IFRS to meet the January 1, 2011 deadline. HREIT has substantially completed its process of evaluating the potential impact of IFRS on its consolidated financial statements.

To date, analysis of the impact of all standards is substantially complete. Recommendations on policy choices have been presented to the Board of Trustees and, where applicable, these recommendations have received approval. As a result, new processes and procedures have been developed and are in the final stages of implementation. These new processes and procedures entail the gathering and tracking of data for the extensive accounting and disclosure requirements under the transition to IFRS, and on a continual basis once the adoption of these new standards has been completed. In addition, the quantitative assessment to what impact, if any, the policy choices has on the consolidated financial statements of HREIT is also at its final stages.

HREIT continues to assess the effects of the transition to IFRS on its financial reporting and disclosure requirements. The process will be an on-going one as new standards and recommendations are issued by the International Accounting Standards Board ("IASB") and the AcSB.

Based on HREIT's transition plan, the following standards have been identified as those, which have the most significant impact on HREIT upon implementation to IFRS. Recommendations, where applicable have been presented to the Board and approval related to these policy choices has been received.

Investment Properties

Income properties as reflected in the audited restated financial statements will be considered to be "Investment Properties" and the accounting principles enumerated under IAS 40 – *Investment Property* will apply. As with GAAP, IAS 40 provides that investment properties will initially be measured at cost. Subsequent to initial recognition, however, IAS 40 provides an entity with two choices, as follows:

- continue with a cost valuation model with note disclosure of fair values; or
- recognize the fair value of investment properties on the balance sheet with valuation adjustments reflected in income.

In either option, HREIT will be required to disclose fair values as at January 1, 2010 in the opening balance sheet to be prepared under IAS 1 – *Presentation of Financial Statements* on the adoption of IFRS

for HREIT's fiscal year beginning January 1, 2011. The provision of fair value information under either option will require that HREIT develops a valuation process for each of the investment properties to reflect market conditions at the end of the reporting period.

Under the fair value model, the fair value of the investment properties would be recorded on the consolidated statement of financial position and the change due to revaluation each period would be recognized in the consolidated statement of operations. As the investment properties would be recorded at fair value, no amortization expense would be required to be recorded. In addition, any tenant inducement/improvements, intangible assets and liabilities and leasing costs related to investment properties are not presented separately as their values are incorporated within the values of the property's fair value. While straight-line rent receivables and tenant improvements will continue to be tracked separately and amortized over the lease terms for determining net income, the balances of the related assets will be considered part of the fair value of the investment property.

The cost model under IAS 40 is similar to GAAP in that the investment property is carried on the consolidated statement of financial position at its cost less accumulated amortization. Under the cost model, the fair value of such investment properties would be disclosed in the notes to the consolidated financial statements.

IFRS 1 – *First Time Adoption of IFRS* allows HREIT to choose to use the fair value as the deemed cost of the investment property on transition to IFRS if the cost model is chosen.

HREIT has examined the differences that would arise under each of the fair value and cost models and elected to measure its investment properties at fair value. The fair value of investment properties will be reported on the statement of financial position at each reporting period, with fair value changes reported in the statement of operations. This policy change is adopted on a retroactive basis beginning on January 1, 2011, with comparatives as at January 1, 2010 and December 31, 2010.

In response to the need to compile fair value of investment properties at each of the reporting dates, HREIT has developed and implemented a valuation strategy and process which combines the services of third-party professional appraisers as well as an internal valuation process. The valuation strategy and process also entail performing individual property valuations by third-party professional appraisers on a rotational basis over a 3 year cycle to ensure that each property would have been externally valued at least once during every three years. These external valuations will also be used to support the values generated through HREIT's internal valuation process.

HREIT determines the fair value of each investment property based upon a combination of generally accepted appraisal methodologies: the discounted cash flow method and the overall capitalization method. Under the discounted cash flow method, expected future cash flows for each investment property are based upon, but not limited to, rental income from current leases, budgeted and actual expenses, and assumptions about rental income from future leases. Under the overall capitalization method, year one income is stabilized and capped at a rate deemed appropriate for each investment property.

HREIT has determined the fair value of investment properties to be approximately $429 million (unaudited) at January 1, 2010, which is approximately $39 million higher than the carrying value under GAAP inclusive of related intangibles assets, leasing costs, intangible liabilities and other deferred assets.

Leases

A significant difference between lease accounting principles under GAAP and IFRS is that IFRS places more focus on the substance of the arrangement. IAS 17 – *Leases*, uses qualitative factors in determining lease classifications, where under GAAP, quantitative tests are primarily used to determine if a lease is an operating or finance lease. This difference may result in HREIT classifying a lease as a finance lease rather than an operating lease. HREIT has substantially completed the review of its leases in order to determine if under IFRS, each lease would be treated as a financing or operating lease. HREIT accounts for all land leases as operating leases under GAAP and does not expect the difference will result in any change under IFRS. There is no impact expected to HREIT's consolidated financial statements.

Classification of Trust Units

GAAP has a less restrictive definition of financial liabilities than IFRS as it does not give specific guidance to settling contracts with the issuer's own equity instruments. HREIT has been presenting its trust units as equity. However, IAS 32 – *Financial Instruments*, has a more rigorous definition of what constitutes a financial liability which includes equity instruments if they have a contractual obligation to deliver cash or other financial assets to another entity.

The Declaration of Trust of HREIT provides discretion to the trustees of HREIT in relation to distribution of income of the Trust and therefore, the trust units satisfy the required exemption criteria to continue to be presented as equity under IFRS.

Convertible Debentures

HREIT issued convertible debentures that are linked to trust units which are considered a puttable liability and therefore do not meet the definition of an equity instrument. The convertible debentures are therefore not a compound financial instrument under IAS 32 – *Financial Instruments – Presentation* and accordingly, and will be presented as a liability and the Trust has chosen to fair value the debentures with any changes in fair value recorded in the consolidated statement of operations. Under GAAP, HREIT has separately accounted for the debt and equity components of the convertible debentures. At January 1, 2010, the equity component of convertible debentures amounting to approximately $11 million will be removed with the corresponding increase presented in the cumulative income (loss) and total accumulated comprehensive income (loss) resulting in no change in total Unitholder's equity. In addition, the fair value of the convertible debentures is higher than the carrying value by approximately $1 million at January 1, 2010, which will be deducted from the unitholder's equity.

Joint Ventures/Co-ownerships

HREIT has five jointly owned properties which are accounted for using the proportionate consolidation method. IAS 31 – *Interests in Joint Ventures* allows the choice to either proportionately consolidate jointly controlled properties or account for such interests using the equity method. HREIT does not expect any effect upon conversion into IFRS. However, IASB issued an exposure draft, ED 9 - *Joint Arrangements*, which proposes to eliminate the option to proportionately consolidate interest in jointly controlled entities. The IASB is also expected to issue a new standard to replace IAS 31 in 2012 or later. The effect of this new standard would be a reclassification of the assets and liabilities of these jointly

controlled properties to show as a net balance on HREIT's consolidated statement of financial position and a reclassification of the revenues and expenses of these properties to show as a net balance on the consolidated statement of operations.

Lease Incentives

GAAP requires HREIT to record tenant incentives as a reduction of rental revenue. Standing Interpretations Committee 15 – *Operating Leases – Incentives* ("SIC 15"), requires the same treatment as required under GAAP, however, the definition of tenant incentives may differ from HREIT's current application of GAAP. HREIT has substantially completed its review of the nature of existing capitalized costs using the definitions of tenant incentives and tenant improvements under SIC 15 and no significant impact is expected to HREIT's consolidated statement of operations as a result of this difference.

Discontinued Operations

The definition of a discontinued operation is more restrictive under IFRS than it is under GAAP. Under IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*, only components that represent a separate major line of business or geographical area of operations, or a subsidiary acquired exclusively with a view to resale can be classified as discontinued operations. Accordingly, the sale of a single property is not likely to meet the IFRS definition of a discontinued operation. Currently under GAAP, HREIT classifies individual properties which are sold, designated by management as for sale or subject to unconditional sale and purchase agreements as discontinued operations. Under IFRS, HREIT will present these properties as "Properties held for sale".

First-time adoption of International Financial Standards

HREIT's adoption of IFRS will require the application of IFRS 1 - *First-Time Adoption of International Financial Reporting Standards*, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. IFRS 1 also has certain exceptions and limited optional exemptions in specified areas of certain standards.

The implications of IFRS 1 have been considered in the evaluation of the above noted standards. However, this will be an ongoing process as new standards and recommendations are issued by the IASB and the AcSB. HREIT's financial position and results of its operations that will be significantly different when presented in accordance with IFRS are summarized above.

Financial Statement Presentation

HREIT is in the process of preparing the first condensed consolidated financial statements for the three months ending March 31, 2011 in accordance with IAS 34 – *Interim Financial Reporting*. As the interim financial statements are intended to be read in conjunction with HREIT's most recent annual financial statements, an explanation of events and transactions that are significant to the understanding of the changes to the financial position and performance of HREIT since the last annual reporting period will be disclosed in the notes to the interim financial statements. This is also an on-going process throughout 2011 as IFRS standards are amended by the IASB, decisions on accounting policies are finalized and their impact is determined. HREIT has substantially completed preparation of the opening IFRS consolidated financial position as at January 1, 2010.

Property Table as at December 31, 2010

Asset Class	Property Name	# of Bldgs	City	Prov	Ownership	Gross Leasable Area (s.f.)	Owned GLA (s.f.)	Occupancy
OFFICE								
	Medical Arts Bldg	1	Winnipeg	MB	100%	111,869	111,869	71.2%
	365 Hargrave St	1	Winnipeg	MB	100%	71,783	71,783	100.0%
	114 Garry St Bldg	2	Winnipeg	MB	100%	74,248	74,248	100.0%
	1336-1340 Sargent Ave Bldg	2	Winnipeg	MB	100%	42,092	42,092	100.0%
	1030-1040 Empress St Bldg	2	Winnipeg	MB	100%	33,478	33,478	100.0%
	555 Madison St Bldg	1	Winnipeg	MB	100%	18,462	18,462	100.0%
	220 Cree Bldg	1	Winnipeg	MB	100%	18,000	18,000	88.9%
	895 Waverly Bldg	1	Winnipeg	MB	100%	34,435	34,435	100.0%
	Waverley Street Bldg	1	Winnipeg	MB	100%	59,429	59,429	27.6%
	East District Police Station	1	Winnipeg	MB	100%	33,000	33,000	100.0%
	NewPort Centre	2	Winnipeg	MB	100%	153,366	153,366	80.1%
	220 Portage Ave[1]	1	Winnipeg	MB	50%	169,980	84,990	97.4%
	Century Business Park (1680)	1	Winnipeg	MB	100%	29,843	29,843	72.6%
	Century Business Park (1700)	1	Winnipeg	MB	100%	30,793	30,793	100.0%
	Century Business Park (585)	1	Winnipeg	MB	100%	9,680	9,680	100.0%
	280 Broadway Ave Bldg	1	Winnipeg	MB	100%	115,354	115,354	100.0%
	70 Smith St Bldg[2]	1	Winnipeg	MB	100%	-	-	-
	Centre Square	1	Yellowknife	NWT	100%	81,787	81,787	75.5%
	1189 Colonel Sam Dr Bldg	1	Oshawa	ON	100%	103,179	103,179	100.0%
	Saskatchewan Place	1	Regina	SK	100%	84,243	84,243	97.5%
TOTAL - OFFICE		**24**				**1,275,021**	**1,190,031**	**89.1%**

1 Property is managed by Canadian Real Estate Investment Trust.

2 70 Smith St is 15 unit residential building that is adjacent to the 280 Broadway office property. Income from 70 Smith St is nominal. No GLA reported.

Property Table as at December 31, 2010

Asset Class	Property Name	# of Bldgs	City	Prov	Ownership	Gross Leasable Area (s.f.)	Owned GLA (s.f.)	Occupancy
RETAIL								
	Cumbria Centre	1	Spruce Grove	AB	100%	21,886	21,886	55.9%
	Deer Park Shopping Ctr[1]	1	Red Deer	AB	100%	56,347	56,347	100.0%
	125-185 First St Bldg[1]	1	Cochrane	AB	100%	15,757	15,757	92.9%
	Northgate Shopping Centre	1	Winnipeg	MB	50%	230,314	115,157	98.2%
	Charleswood Square	1	Winnipeg	MB	100%	34,069	34,069	57.9%
	Westwood Mall	1	Thompson	MB	100%	53,956	53,956	76.3%
	Southland Mall	1	Winkler	MB	100%	181,241	181,241	79.8%
	Flin Flon Walmart	1	Flin Flon	MB	100%	63,439	63,439	100.0%
	Airport Road	1	Yellowknife	NWT	100%	15,475	15,475	100.0%
	Harbourview Village[1]	1	Kenora	ON	100%	12,464	12,464	54.0%
	Crossroads Centre	1	London	ON	100%	193,873	193,873	61.8%
	Lincoln Centre	1	Welland	ON	100%	167,639	167,639	90.9%
	Suncoast Mall	1	Goderich	ON	100%	160,328	160,328	95.7%
	Portage Place	1	Peterborough	ON	100%	226,713	226,713	84.9%
	Speedvale Centre	1	Guelph	ON	100%	115,631	115,631	96.3%
	Humboldt Mall	1	Humboldt	SK	100%	105,841	105,841	77.6%
TOTAL - RETAIL		**16**				**1,654,973**	**1,539,816**	**85.3%**

1 Property is held for sale and is included in discontinued operations in the financial statements.

Property Table as at December 31, 2010

Asset Class	Property Name	# of Bldgs	City	Prov	Ownership	Gross Leasable Area (s.f.)	Owned GLA (s.f.)	Occupancy
INDUSTRIAL								
	5404 36th Street South East	1	Calgary	AB	100%	36,000	36,000	100.0%
	7001 96th Street	1	Grande Prairie	AB	100%	33,280	33,280	100.0%
	35 Martin Way	1	Brooks	AB	100%	28,400	28,400	100.0%
	1855 Sargent Avenue	1	Winnipeg	MB	100%	77,500	77,500	100.0%
	1695 Sargent Avenue	1	Winnipeg	MB	100%	48,860	48,860	100.0%
	1271 Sargent Avenue	1	Winnipeg	MB	100%	40,893	40,893	100.0%
	891& 895 Century Street	2	Winnipeg	MB	100%	51,835	51,835	89.5%
	119-130 Plymouth	2	Winnipeg	MB	100%	43,364	43,364	100.0%
	61 - 155 Paramount Rd[1]	4	Winnipeg	MB	25%	328,195	82,049	89.8%
	60-94 Hoka Street[1]	2	Winnipeg	MB	25%	106,953	26,738	93.1%
	110 Lowson Crescent	1	Winnipeg	MB	100%	60,903	60,903	100.0%
	130 Lowson Crescent	1	Winnipeg	MB	100%	25,672	25,672	100.0%
	2595 McGillivray Boulevard	1	Winnipeg	MB	100%	73,808	73,808	53.7%
	505 Industrial Dr	1	Milton	ON	100%	258,960	258,960	100.0%
	650 Riverview Dr	1	Chatham	ON	100%	286,570	286,570	23.7%
	110 Henderson Drive	1	Regina	SK	100%	101,360	101,360	100%
TOTAL - INDUSTRIAL		**22**				**1,602,553**	**1,276,192**	**81.3%**

1 Property is managed by SCPL.

Property Table as at December 31, 2010

Asset Class	Property Name	# of Bldgs	City	Prov	Ownership	Gross Leasable Area (s.f.)	Owned GLA (s.f.)	Occupancy
GROUND-LEASED								
	2100-78th Ave NE	1	Calgary	AB	100%	102,991	102,991	75.8%
	8001-21st Street NE	1	Calgary	AB	100%	75,997	75,997	89.9%
	4th Ave & Service Road	1	Edmonton	AB	100%	40,102	40,102	67.8%
	5th Ave & Service Road	1	Edmonton	AB	100%	48,193	48,193	83.0%
	4840 Miller Rd	1	Richmond	BC	100%	166,122	166,122	75.2%
	4831 Miller Rd	1	Richmond	BC	100%	22,726	22,726	70.9%
	4851 Miller Rd	1	Richmond	BC	100%	43,018	43,018	92.7%
	4871 Miller Rd	1	Richmond	BC	100%	60,961	60,961	90.9%
	5000 Miller Rd	1	Richmond	BC	100%	131,227	131,227	98.1%
	5200 Miller Rd	1	Richmond	BC	100%	81,605	81,605	84.0%
	3511 Jericho Road	1	Richmond	BC	100%	25,842	25,842	100.0%
	3551 Jericho Road	1	Richmond	BC	100%	26,440	26,440	100.0%
	5980 Miller Rd	1	Richmond	BC	100%	29,241	29,241	87.9%
	3611 Jericho Rd	1	Richmond	BC	50%	52,308	26,154	100.0%
	5400 Airport Rd	1	Richmond	BC	100%	101,720	101,720	91.1%
	1935 Sargent Ave	1	Winnipeg	MB	100%	113,864	113,864	100.0%
	1950 Sargent Avenue	1	Winnipeg	MB	100%	37,887	37,887	100.0%
	Airport Place[1]	1	Winnipeg	MB	50%	645,607	322,804	80.0%
	2019 Sargent Ave	1	Winnipeg	MB	100%	42,641	42,641	83.6%
	2021 Sargent Ave	1	Winnipeg	MB	100%	59,765	59,765	92.9%
	2515 Airport Drive	1	Saskatoon	SK	100%	30,364	30,364	100.0%
TOTAL – GROUND LEASED		**21**				**1,834,642**	**1,589,664**	**88.6%**

1 Property is managed by SCPL.

Property Table as at December 31, 2010

Asset Class	Property Name	# of Bldgs	City	Prov	Ownership	Gross Leasable Area (s.f.)	Owned GLA (s.f.)	Occupancy
PARKING						**Spaces**	**Spaces**	
	245 Graham Ave	1	Winnipeg	MB	100%	175 spaces	175 spaces	-
	68 Smith St[1]	1	Winnipeg	MB	100%	85 spaces	85 spaces	-
	286 Broadway Ave	1	Winnipeg	MB	100%	123 spaces	123 spaces	-
TOTAL - PARKING		**3**						
LAND						**Acres**	**Acres**	
	Flin Flon Land	1	Flin Flon	MB	100%	0.9 acre	0.9 acre	-
	Willowcreek Land	1	Peterborough	ON	100%	12.8 acres	12.8 acres	-
TOTAL – LAND		**2**						
GRAND TOTAL		**88 bldgs**				**6,367,189 sf**	**5,595,703 sf**	**85.2%**

1 68 Smith St parking lot is adjacent to the 280 Broadway Avenue office property and 70 Smith Street residential property.

Consolidated Financial Statements of

HUNTINGDON REAL ESTATE INVESTMENT TRUST

Years ended December 31, 2010 and 2009

KPMG

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Huntingdon Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Huntingdon Real Estate Investment Trust, which comprise the consolidated balance sheet as at December 31, 2010, the consolidated statements of income (loss) and comprehensive income (loss), equity, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Huntingdon Real Estate Investment Trust as at December 31, 2010, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Comparative Information

Without modifying our opinion, we draw attention to notes 2(b)(i) and 3 to the consolidated financial statements which indicate that the comparative information presented as at and for the year ended December 31, 2009 have been restated. In addition, we draw attention to note 26 to the consolidated financial statements which indicate that the comparative information as at and for the year ended December 31, 2009 has been adjusted for the presentation of discontinued operations. The consolidated financial statements of Huntingdon Real Estate Investment Trust as at and for the year ended December 31, 2009, excluding the restatement described in notes (2)(b)(i) and 3 and the adjustments described in note 26, were audited by another auditor who expressed an unmodified opinion on those statements on March 24, 2010. As part of our audit of the consolidated financial statements of Huntingdon Real Estate Investment Trust as at and for the year ended December 31, 2010, we audited the restatement described in notes 2(b)(i) and 3 and the adjustments described in note 26 to the consolidated financial statements that was applied to restate or adjust the comparative information as at and for the year ended December 31, 2009. In our opinion, the restatement and adjustments are appropriate and have been properly applied.

KPMG LLP

Chartered Accountants

March 28, 2011

Winnipeg, Canada

HUNTINGDON REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets

As at December 31, 2010 and 2009
(expressed in thousands of Canadian dollars)

		2010		2009 (restated, notes 2 and 3)
Assets				
Income properties (note 5)	$	356,901	$	309,843
Direct financing lease receivable (notes 3 and 6)		12,359		12,432
Intangible assets (note 7)		11,388		14,025
Other assets (note 8)		30,211		25,463
Future income tax asset (note 9)		8,247		6,200
Cash		8,046		6,953
Discontinued operations (note 26)		13,934		35,169
	$	441,086	$	410,085
Liabilities and Unitholders' Equity				
Mortgage loans payable (note 10)	$	227,903	$	217,908
Convertible debentures (note 11)		44,759		53,029
Intangible liabilities (note 12)		522		676
Accounts payable and accrued liabilities		14,308		9,660
Future income tax liability (note 9)		7,823		-
Liabilities related to discontinued operations (note 26)		10,248		22,785
		305,563		304,058
Unitholders' equity		135,523		106,027
Commitments and contingencies (note 25)				
Subsequent events (notes 27)				
	$	441,086	$	410,085

See accompanying notes to consolidated financial statements.

Approved by the Board of Trustees

"D. Greg Doyle", Trustee

"Zachary R. George", Trustee

HUNTINGDON REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

Years ended December 31, 2010 and 2009
(expressed in thousands of Canadian dollars, except per unit amounts)

		2010		2009 (restated, notes 2 and 3)
Revenue:				
Rentals from income properties	$	70,674	$	53,391
Interest and other income		1,155		1,422
		71,829		54,813
Expenses:				
Property operating costs		33,869		26,232
		37,960		28,581
Finance expense (note 13)		20,337		21,010
Trust expense		6,187		7,033
Amortization		21,244		14,484
Bargain purchase gain (note 4)		(2,393)		-
		45,375		42,527
Loss from continuing operations before income taxes		(7,415)		(13,946)
Recovery of (provision for) income taxes (note 9):				
Current		(83)		-
Future		2,186		1,443
		2,103		1,443
Loss from continuing operations		(5,312)		(12,503)
Income from discontinued operations (note 26)		7,649		5,070
Income (loss) and comprehensive income (loss)	$	2,337	$	(7,433)
Total income (loss) and comprehensive income (loss) attributable to:				
Unitholders	$	2,264	$	(7,433)
Non-controlling interest		73		-
	$	2,337	$	(7,433)
Income (loss) per unit (note 16):				
Basic and diluted				
Continuing operations	$	(0.35)	$	(1.53)
Discontinued operations		0.49		0.62
	$	0.14	$	(0.91)

See accompanying notes to consolidated financial statements.

HUNTINGDON REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Equity

Years ended December 31, 2010 and 2009
(expressed in thousands of Canadian dollars, except number of units)

	2010	2009 (restated, notes 2 and 3)
Trust units (note 15):		
Balance, beginning of year	$ 176,513	$ 176,513
Issuance of trust units:		
Acquisition of IAT (note 4)	33,933	-
Deferred trust units exchanged for trust units	503	-
Unit options exercised	64	-
Trust units acquired and cancelled	(13,464)	-
Balance, end of year	197,549	176,513
Contributed surplus (notes 17 and 18):		
Balance, beginning of year	877	546
Debentures retired (note 11)	2,508	-
Unit option compensation	1	-
Deferred unit compensation	741	331
Value associated with options forfeited	(12)	-
Deferred trust units exchanged for trust units	(503)	-
Purchase and cancellation of debentures (note 11)	48	-
Purchase and cancellation of trust units (note 15)	7,276	-
Balance, end of year	10,936	877
Equity component of convertible debentures (note 11):		
Balance, beginning of year	10,593	10,593
Purchase and cancellation of debentures	(48)	-
Debentures retired	(2,508)	-
Balance, end of year	8,037	10,593
Cumulative income (loss) and total accumulated comprehensive income (loss):		
Balance, beginning of year, previously reported	(12,112)	(7,244)
Adjustment for direct finance lease (note 3)	114	18
Implementation of accounting policy change (note 2)	(2,661)	-
Balance, beginning of year, as restated	(14,659)	(7,226)
Value associated with unit options forfeited	12	-
Refundable taxes	(61)	-
Income (loss) and comprehensive income (loss)	2,264	(7,433)
Balance, end of year	(12,444)	(14,659)
Non-controlling interest:		
Balance, beginning of year	-	-
IAT acquisition (note 4)	457	-
Income (loss) and comprehensive income (loss)	73	-
Balance, end of year	530	-
Cumulative distributions to unitholders:		
Balance, beginning of year	(67,297)	(67,297)
Distribution to unitholders (note 14)	(1,788)	-
Balance, end of year	(69,085)	(67,297)
Total unitholders' equity	$ 135,523	$ 106,027
Units issued and outstanding, end of year (note 15)	14,698,815	8,065,468

See accompanying notes to consolidated financial statements.

HUNTINGDON REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows

Years ended December 31, 2010 and 2009
(expressed in thousands of Canadian dollars)

	2010	2009 (restated, notes 2 and 3)
Cash provided by (used in):		
Operating activities:		
Loss from continuing operations	$ (5,312)	$ (12,503)
Adjustments for:		
Amortization of above-market leases (note 7)	193	287
Amortization of below-market leases (note 12)	(154)	(374)
Amortization and accretion	22,564	15,892
Unrealized loss on interest rate swaps (note 13)	345	4
Straight-line rent	(483)	(635)
Unrealized gain on investment (note 13)	(105)	-
Unit-based compensation (notes 17 and 18)	585	331
Future income tax recovery (note 9)	(2,186)	(1,443)
Accretion of the debt component of convertible debentures (note 13)	1,971	2,171
Bargain purchase gain (note 4)	(2,393)	-
	15,025	3,730
Expenditures on deferred lease expenses	(1,867)	(4,449)
Change in non-cash operating balances	(904)	7,878
	12,254	7,159
Financing activities:		
Proceeds of mortgage loan financing	34,371	11,970
Debt repaid on refinancing	(26,935)	(7,851)
Expenditures on transaction costs	(621)	(578)
Debt principal repaid	(10,547)	(8,867)
Trust units acquired and cancelled	(6,188)	-
Convertible debentures acquired and cancelled	(279)	-
Convertible debentures retired	(10,571)	-
Distributions paid	(1,788)	-
	(22,558)	(5,326)
Investing activities:		
Additions to income properties	(9,265)	(3,373)
Cash on acquisition of IAT (note 4)	4,889	-
Purchase of investments (note 25(a))	(2,570)	-
	(6,946)	(3,373)
Discontinued operations (note 26)	18,343	37
Increase (decrease) in cash	1,093	(1,503)
Cash, beginning of year	6,953	8,456
Cash, end of year	$ 8,046	$ 6,953

Supplementary cash flow information (note 21)

See accompanying notes to consolidated financial statements.

1. Organization and description of business:

Huntingdon Real Estate Investment Trust (the "Trust" or "HREIT") is an open-end real estate investment trust which was created under a Declaration of Trust dated January 10, 2005, subsequently amended and restated on December 31, 2009. The Trust owns, directly or indirectly, income producing office, industrial, retail and standalone parking lot properties, including aviation-related facilities under long-term ground leases at five of Canada's leading international airports.

On January 1, 2010, the Trust completed the acquisition of IAT Air Cargo Facilities Income Fund ("IAT") including 18 aviation-related facilities and a property management team (note 4). On February 12, 2010, HREIT internalized asset management services replacing Shelter Canadian Properties Limited ("SCPL") and on February 23, 2010, the Trust internalized property management services replacing SCPL.

2. Significant accounting policies:

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP").

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the Trust and all of its subsidiaries including IAT, variable interest entities of which it is the primary beneficiary and its proportionate share of assets, liabilities, revenues and expenses of properties owned through co-ownership arrangements. All material intercompany transactions and balances have been eliminated upon consolidation.

2. Significant accounting policies (continued):

(b) Changes in accounting policy:

(i) CICA Handbook Section 1582 - Business Combinations

Effective January 1, 2010, the Trust elected, in accordance with transitional provisions of this section, to adopt CICA Handbook Section 1582 - *Business Combinations* which applies prospectively to business combinations for which the acquisition date is on or after January 1, 2010. Section 1582 requires that all identifiable assets acquired and liabilities assumed of an acquired business be recorded at fair value at acquisition. Section 1582 has a broader definition of what constitutes a business. Obligations for contingent consideration and contingencies will also be recorded at fair value at the acquisition date. The standard also requires that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods incurred after the acquisition date. The acquisition of IAT (note 4) has been accounted for under these new standards. The acquisition costs incurred to December 31, 2009 of $3.4 million (previously included in prepaid expenses as at December 31, 2009) have been expensed retrospectively to the year ended December 31, 2009, offset by the related future income tax recovery of $0.8 million. This has resulted in an increase to loss from continuing operations of $2.6 million for the year ended December 31, 2009 and a decrease to prepaid expenses of $3.4 million and increase to future income tax asset of $0.8 million at December 31, 2009. In addition, as a result of application of Section 1582, the Trust recognized a bargain purchase gain of $2.4 million (note 4) which is included in the consolidated statements of income (loss) and comprehensive income (loss).

(ii) CICA Handbook Sections 1601 - Consolidations and 1602 - Non-Controlling Interests

As a result of the adoption of Section 1582, the Trust also adopted CICA Handbook Sections 1601 - *Consolidations* and 1602 - *Non-Controlling Interests* effective January 1, 2010. All three sections must be adopted concurrently. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The adoption of these standards requires non-controlling interest to be presented as a separate component within unitholders' equity and income (loss) and comprehensive income (loss) attributed to the Trust's unitholders' and non-controlling interests on the consolidated statements of income (loss) and other comprehensive income (loss).

2. Significant accounting policies (continued):

(c) Income properties and intangible assets and liabilities:

Income properties are comprised of several components including land, buildings and fixtures, properties under development and the cost of acquired in-place leases including the value of above-market and below-market leases.

Prior to the adoption of Section 1582 [note 2(b)(i)] which is effective January 1, 2010, the value allocated to acquired above and below-market leases and in-place lease values was considered to be a separate intangible asset or liability for presentation purposes.

Income properties and intangible assets are carried at cost less accumulated amortization. If events or circumstances indicate that the carrying value of the income properties and intangible assets may be impaired, a recoverability analysis is performed based upon estimated undiscounted cash flows to be generated from the income properties. If the analysis indicates that the carrying value is not recoverable from future cash flows, the income properties and intangible assets are written down to estimated fair value based on discounted cash flows and an impairment loss is recognized.

Properties under development include initial acquisition costs, other direct costs and realty taxes, interest, and operating revenue and expenses during the period of development.

Amortization on buildings and building improvements and fixtures is recorded on a straight-line basis over the remaining useful life (3 to 55 years). Improvements that do not meet the capitalization criteria are expensed in full in the period incurred. Amortization on furniture and equipment is recorded on a straight-line basis over five years.

During the year the Trust revised its amortization rate for select building improvements from a range of 11 to 52 years to 3 to 15 years to better reflect the useful life of the related assets. The estimate was applied prospectively from January 1, 2010, and the impact of the change in estimate to the year ended December 31, 2010 is an increase to amortization expense of approximately $0.4 million.

Lease origination costs, in-place leases, above-market and below-market leases and tenant relationships are amortized over the remaining term of the respective leases.

2. Significant accounting policies (continued):

(d) Other assets:

Leasing expenses, such as tenant inducements, tenant improvements and leasing commissions are deferred and amortized on a straight-line basis over the term of the respective leases.

Payments to tenants under lease obligations are characterized either as tenant improvements owned by the Trust or as tenant inducements provided to the tenant. When the obligation is determined to be tenant improvements owned by the Trust, the Trust is considered to have acquired an asset which is amortized through expense. If the Trust determines that for accounting purposes it is not the owner of the tenant inducements, then the obligations under the lease are treated as incentives that are amortized as a reduction to revenue.

(e) Management contracts:

In addition to the intangible assets related to the acquisition of income properties, a portion of the purchase price of Consolidated Real Estate Services Inc. had been allocated to intangible assets to reflect the value of in-place management contracts. The value of the management contracts was being amortized over the terms of the related management contracts. The balance of the intangible assets related to Consolidated Real Estate Services Inc. had been included in property operating cost for the year when the management contract was terminated. The operations of Consolidated Real Estate Services Inc. were sold during fiscal 2010 including all management contracts (note 26).

(f) Discontinued operations:

A property is classified by the Trust as held for sale on the consolidated balance sheets when the property is available for immediate sale; management has committed to a plan to sell the asset and is actively locating a buyer for the asset at a sales price that is reasonable in relation to the current fair value of the asset; and the sale is probable and expected to be completed within a one-year period. Properties held for sale are stated at the lower of cost and net realizable value, less selling costs. No amortization is recorded on these properties once classified as held for sale. The results of operations associated with properties disposed of, or classified as held for sale, are reported separately as income (loss) from discontinued operations. The operations and cash flows of the property can be clearly distinguished, operationally and for financial purposes and has been reported in discontinued operations.

2. Significant accounting policies (continued):

(g) Restricted cash:

Restricted cash includes amounts held in reserve for construction and tenant acquisition costs, capital improvements, deposits to secure letters of credit, and holdbacks as required by either a mortgage or under terms of a purchase and sale agreement.

(h) Convertible debentures:

The convertible debentures are convertible into units, as disclosed in note 11. Accordingly, the debentures are divided into debt and equity components, based on the net present value of the future payments at the time of issue.

(i) Revenue recognition:

When the Trust retains substantially all of the benefits and risks of ownership of its income properties, it accounts for its leases with tenants as operating leases. Rents are recognized as revenue over the terms of the related lease agreements. Rental revenue from leases with contractual rent increases are recognized on a straight-line basis over the term of the respective leases. Recoveries from tenants for property operating costs and property taxes are recognized as revenues during the period in which the applicable costs are incurred. When substantially all of the benefits and risks of ownership of the Trust's income properties have been transferred to its tenants, the Trust's leases are accounted for as direct finance leases. The minimum lease payments under such arrangements are recorded at the inception of the arrangement and the finance income related to the direct financing lease is recognized in a manner that produces a constant rate of return on the investment in the lease and included in interest income.

Property management revenue related to the operations of Consolidated Real Estate Services Inc. and was recognized when the services were provided in accordance with the management contracts. The operations of Consolidated Real Estate Services Inc. were disposed of during fiscal 2010, including all management contracts (note 26).

2. Significant accounting policies (continued):

(j) Income taxes:

The Trust uses the liability method of accounting for income taxes where by the Trust is required to: (i) determine its temporary differences between asset balances for income tax purposes and the balances recorded in accordance with GAAP; (ii) determine the periods over which those temporary differences are expected to reverse; and (iii) apply the tax rates enacted at the balance sheet date that will apply in the periods those temporary differences are expected to reverse. The Trust is required to use reasonable estimates in completing the calculation and the result of the calculation is recorded as a future income tax asset or liability.

In June 2007, new legislation relating to, among other things, the federal income taxation of publicly traded income trusts was substantially enacted. Under the new rules, certain distributions from a "specified investment flow-through" trust (a SIFT) will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions of income of SIFTS received by Unitholders that are not deductible to the SIFT will be treated as dividends payable to Unitholders. Distributions paid as returns of capital will not be subjected to this tax.

The new rules do not apply to a "real estate investment trust" that meets prescribed conditions relating to the nature of its income and investments (a Qualifying REIT). In the opinion of management, the Trust does not currently satisfy the prescribed conditions. The new legislation is not expected to apply to the Trust until 2011 as it provides for a transition period for publicly traded entities that existed prior to November 1, 2006. Prior to 2011, the Trust considered its alternatives, including restructuring its affairs in order to meet the prescribed conditions and become a Qualifying REIT. As of December 31, 2010, the Trust had not yet made a determination as to its preferred structure.

As the Trust does not currently meet the criteria for a Qualifying REIT, Canadian generally accepted accounting principles requires that the future income tax asset and liability calculation and estimates reflect its current income tax status.

2. Significant accounting policies (continued):

(k) Income (loss) per unit:

Basic income (loss) per unit is computed by dividing income (loss) by the weighted average number of units outstanding during the year. Diluted income (loss) per unit is calculated based on the weighted average number of units outstanding during the year plus the effect of dilutive unit equivalents such as convertible debentures or options. The dilutive effect on per unit amounts resulting from outstanding unit options is calculated using the treasury stock method. Under this method, the diluted weighted average number of units is calculated assuming the proceeds that arise from the exercise of the outstanding options are used to purchase units of the Trust at their average market price for the period.

(l) Unit-based compensation:

(i) Unit option plan:

The Trust has a unit option plan available for officers, employees and trustees. The fair value based method of accounting is applied to all unit-based compensation. The fair value of the unit options granted is estimated on the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized from the grant date to the date the options vest. On the exercise of unit options, consideration received and the accumulated unit option value is credited to the Trust units.

(ii) Deferred unit plan:

Deferred units granted to trustees, officers, employees or consultants of the Trust in respect of Trustee fees or bonuses are recognized as unit compensation expense over the vesting period of the deferred unit. Compensation cost is measured based on the market price of the Trust's units on the date of grant of the deferred units. The deferred units earn additional units for the distributions that would otherwise have been paid on the deferred units as if they had been issued as Trust units on the date of grant. Compensation expense related to these additional units is recorded in the year granted. Deferred units that have vested, but for which corresponding Trust units have not been issued and where the ultimate issuance of such Trust units is simply a matter of a passage of time, are considered to be outstanding units from the date of vesting for basic income (loss) per unit calculations.

2. Significant accounting policies (continued):

(m) Financial instruments:

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities. Transactions to purchase or sell financial assets are recorded on the settlement date.

Financial assets and financial liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in net earnings. Financial assets classified as held-to-maturity, loans and receivables and other financial liabilities (other than those held-for-trading) are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

Net gains and losses arising from changes in fair value of loans and receivables, held-to-maturity investments, and other liabilities are recognized in net income upon derecognition or impairment. The Trust does not reclassify a financial instrument into or out of the held-for-trading category while it is held or issued except in rare circumstances.

Derivative instruments are recorded on the balance sheet at fair value including those derivatives that are embedded in a financial instrument or other contract but are not closely related to the host financial instrument or contract, respectively. Changes in the fair values of derivative instruments are recognized in net earnings, except for derivatives that are designated as cash flow hedges, in which case the fair value change for the effective portion of such hedging relationships are recognized in other comprehensive income.

2. Significant accounting policies (continued):

(m) Financial instruments (continued):

The Trust has designated its financial instruments as follows:

Classification	Classification	Measurement
Cash	Held-for-trading	Fair value
Other assets:		
Investment	Held-for-trading	Fair value
Restricted cash	Held-for-trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Future rent receivable	Loans and receivables	Amortized cost
Vendor take-back mortgage receivable	Loans and receivables	Amortized cost
Mortgage loans payable	Other liabilities	Amortized cost
Accounts payable and accrued liabilities excluding interest rate swap	Other liabilities	Amortized cost
Interest rate swaps	Held-for-trading	Fair value
Convertible debentures - debt component	Other liabilities	Amortized cost

Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are added to the related financial asset or liability on initial recognition and are measured at amortized cost using the effective interest method. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability

The Trust assesses impairment of all its financial assets, except those classified as held for trading. Management considers whether there has been a breach in contract, such as default of delinquency in interest or principal payments in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value. Impairment is included in current earnings.

2. **Significant accounting policies (continued):**

(n) Derivative financial instruments:

Derivative financial instruments are utilized to reduce interest rate risk on the Trust's debt. The Trust does not enter into financial instruments for trading or speculative purposes. Interest rate swap agreements are used as part of the Trust's program to manage the fixed and floating interest rate mix of the Trust's total debt portfolio and related overall cost of borrowing. The agreements are not designated as cash flow hedges and are carried at fair value with resulting gains and losses recorded in net income.

(o) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from the estimates, and as adjustments become necessary, the adjustments are reported in earnings in the period in which the adjustments become known.

Management has determined that significant items subject to such estimates include the allocation of the purchase price of income properties and for business combinations; valuation of accounts receivable, valuation of future income tax asset, the recoverability of operating costs and property taxes and the remaining useful life of income properties acquired.

(p) Future changes to significant accounting policies:

In February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed that the adoption of International Financial Reporting Standards (“IFRS”) would be effective for interim and annual periods beginning or after January 1, 2011 for profit-oriented Canadian publicly accountable enterprises. IFRS will replace Canada’s current GAAP for these enterprises. Comparative IFRS information for the previous fiscal year will also have to be reported. These new standards will be effective for the Trust in the first quarter of 2011.

(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

3. Adjustment for direct financing lease:

During the year ended December 31, 2010, a lease at one of the Trust's single-tenant income properties which was previously recorded as an operating lease, was determined to be a direct finance lease as substantially all the risks and benefits of ownership of the property were transferred to the tenant. The lease commenced in fiscal 2008 upon completion of development of the property by the Trust. The correction has been applied retroactively resulting in the following changes to the comparative figures for the year ended December 31, 2009:

	Increase (Decrease)
Income properties	$ (5,612)
Direct financing lease receivable	12,432
Accounts receivable	67
Intangible assets	(8,920)
Other assets	(284)
Future income tax asset	(45)
Accounts payable and accrued liabilities	(2,475)
Unitholders' equity opening balance	18
Rentals from income properties	(1,111)
Interest and other income	822
Amortization expense	(421)
Future income expense	37
Loss and comprehensive loss	(95)
Impact on basic and diluted income (loss) per unit from continuing operations	(0.01)

4. Business acquisition:

On January 1, 2010, the Trust acquired all of the issued and outstanding units of IAT through the issuance of 67,865,538 units (pre-consolidation) of the Trust valued at $33.9 million of aggregate consideration based on the listed unit price of the Trust on January 1, 2010. In addition, the unitholders of IAT units that were residents in the United States received cash consideration of $0.01 million for their equivalent 16,575 units (pre-consolidation) of the Trust resulting in total fair value of consideration paid for the units of IAT of $33.9 million. The acquisition of IAT supports the diversification of the HREIT portfolio, internalization of management services, and a reduction in debt leverage. HREIT expects to reduce operating and finance costs, and provide improved strategic management through an internalized management structure. The acquisition of IAT also provided $4.9 million in cash resources.

(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

HUNTINGDON REAL ESTATE INVESTMENT TRUST

4. Business acquisition (continued):

The Trust incurred acquisition costs of $3.4 million related to professional fees and other costs associated with the acquisition. In accordance with the adoption of the business combination standards on January 1, 2010, as disclosed in note 2, these costs were expensed retrospectively to the year ended December 31, 2009 resulting in an increase to trust expense of $3.4 million.

This transaction has been accounted for by the acquisition method and the results of operations are included in the Trust's accounts from the date of acquisition. The allocation of fair value was first preliminarily assessed as at March 31, 2010 with a more comprehensive assessment based on additional information prepared as of December 31, 2010. Details of the acquisition are as follows:

Identifiable assets acquired, at fair value:		
Income properties	$	55,529
Cash		4,889
Other assets		677
		61,095
Liabilities assumed, at fair value:		
Accounts payable and other liabilities		4,120
Mortgage loans payable		13,000
Future income taxes		7,192
		24,312
		36,783
Non-controlling interest		457
Fair value of net assets acquired		36,326
Purchase consideration - 67,865,538 units (pre-consolidation)		33,933
Bargain purchase gain	$	2,393

Non-controlling interest in net assets acquired is in relation to a variable interest entity in which the Trust indirectly owns 50% but is the primary beneficiary. The other joint venture partner has as a put option, whereby it has an annual right to sell its 50% interest in the joint venture to the Trust at a price determined based on the terms of the joint venture. Non-controlling interest has been valued based on its proportionate share of identifiable assets acquired and liabilities assumed.

HUNTINGDON REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009
(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

4. Business acquisition (continued):

The bargain purchase gain is included in the consolidated statement of income (loss) and comprehensive income (loss). The gain is the result of the value of consideration, HREIT's unit value as at January 1, 2010, the exchange ratio and the fair value of the IAT net assets. Management believes that there was a significant discount in the unit price that did not capture IAT's fair value which resulted in this bargain purchase.

Since the acquisition date of January 1, 2010, $20.0 million of revenue and $1.8 million of income from IAT have been included in the consolidated statement of income (loss) and comprehensive income (loss) for the year ending December 31, 2010.

5. Income properties:

December 31, 2010	Cost	Accumulated amortization	Net book value
Land	$ 45,091	$ –	$ 45,091
Buildings, building improvements and fixtures	343,92	46,824	297,168
Properties under development	6,499	–	6,499
Above and below-market leases and in place leases	12,340	4,197	8,143
	$ 407,922	$ 51,021	$ 356,901

December 31, 2009 (restated, note 3)	Cost	Accumulated amortization	Net book value
Land	$ 45,104	$ –	$ 45,104
Buildings, building improvements and fixtures	293,012	34,772	258,240
Properties under development	6,499	–	6,499
	$ 344,615	$ 34,772	$ 309,843

Amortization of income properties was $16.5 million (2009 - $8.9 million) for the year ended December 31, 2010.

(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

6. Direct financing lease receivable:

The Trust has a lease with a tenant at a single-tenant office income property. The terms of the lease meets the requirement of a direct financing lease due to substantially all the benefits and risks of ownership of the property being transferred to the tenant. The amortized value of the lease as at December 31, 2010 is $12.4 million (2009 – $12.4 million). Interest income of $0.8 million (2009 - $0.8 million) was recognized during the year ended December 31, 2010. The lease ends in fiscal 2030 at which time the tenant has an option to acquire the property for $1.

7. Intangible assets:

December 31, 2010	Cost	Accumulated amortization	Net book value
Lease origination costs	$ 18,317	$ 11,326	$ 6,991
In-place leases	7,294	4,802	2,492
Tenant relationships	648	421	227
Above-market leases	3,858	2,180	1,678
	$ 30,117	$ 18,729	$ 11,388

December 31, 2009 (restated, note 3)	Cost	Accumulated amortization	Net book value
Lease origination costs	$ 19,781	$ 11,112	$ 8,669
In-place leases	8,129	5,011	3,118
Tenant relationships	2,084	1,716	368
Above-market leases	3,879	2,009	1,870
	$ 33,873	$ 19,848	$ 14,025

Amortization of intangible assets, excluding above-market leases, was $2.4 million (2009 - $3.2 million) for the year ended December 31, 2010. Amortization of above market leases was $0.2 million (2009 - $0.3 million) for the year ended December 31, 2010 and is charged to rental revenue from income properties.

(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

8. Other assets:

	2010	2009 (restated, note 3)
Leasing expenses (net of accumulated amortization of $7.3 million (2009 - $5.2 million))	$ 12,019	$ 12,368
Investment (note 25(a))	2,676	-
Restricted cash	4,584	2,830
Prepaid expenses	862	551
Accounts receivable	4,549	4,304
Other receivables	616	1,045
Straight-line rent receivable	4,048	3,565
Vendor take-back mortgage receivable	800	800
Equipment (net of accumulated amortization of $30)	57	-
	$ 30,211	$ 25,463

Amortization of leasing expenses was $2.3 million (2009 - $2.1 million) for the year ended December 31, 2010.

The vendor take-back mortgage receivable bears interest at 5% and matures in December 2012.

HUNTINGDON REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009
(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

9. Income taxes:

For the year ended December 31, 2010, the Trust recorded current income tax expense from continuing operations of $0.1 million (2009 – nil) and a future income tax recovery of $2.2 million (2009 - $1.4 million).

The tax effects of temporary differences that give rise to significant portions of the future income tax asset are as follows:

		2010		2009 (restated, notes 2 and 3)
Tax effected deductible temporary differences between accounting and tax basis of:				
Income properties	$	8,403	$	6,996
Other assets		(156)		(796)
Future income tax asset	$	8,247	$	6,200
Tax effected deductible temporary differences between accounting and tax basis of:				
Income properties	$	(6,553)	$	-
Other assets		(1,270)		-
Future income tax liability	$	(7,823)	$	-

The future income tax asset is net of a valuation allowance of $0.2 million (2009 – $0.2 million) at December 31, 2010.

The provision for income taxes in the consolidated statements of income (loss) and comprehensive income (loss) represents an effective income rate different than the Canadian SIFT tax rate of 28% (2009 – 28%). The differences for the years ended December 31 are as follows:

		2010		2009 (restated, notes 2 and 3)
Loss from continuing operations before income taxes	$	(7,415)	$	(13,946)
Computed income tax recovery at Canadian SIFT rate		(2,076)		(3,905)
Increase (decrease) resulting from:				
Permanent differences		46		2,462
Changes in tax rates		(73)		-
	$	(2,103)	$	(1,443)

(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

10. Mortgage loans payable:

Mortgage loans payable consists of the following:

	2010	2009
First mortgage loans, bearing interest at fixed rates between 2.98% and 7.80% (2009 - 4.40% and 8.24%), with a weighted average interest rate of 5.44% (2009 - 5.89%) and maturing between 2011 and 2039 (2009 - 2010 and 2039) with a weighted average term to maturity of 4.91 years (2009 - 4.91 years)	$ 183,127	$ 171,909
First mortgage loans, bearing interest at floating rates which at December 31, 2010 are between 3.50% and 6.25% (2009 - 3.50% and 6.50%), with a weighted average interest rate of 4.89% (2009 - 4.60%) and maturing between 2011 and 2028 (2009 - 2010 and 2028) with a weighted average term to maturity of 7.77 years (2009 - 9.00 years)	35,423	43,133
Second mortgage loans bearing interest at fixed rates between 4.11% and 6.02% (2009 – 5.00%) with a weighted average interest rate of 5.18% (2009 – 5.00%) and maturing between 2012 and 2014 (2009 - 2012), with weighted average term to maturity of 2.09 years (2009 – 2.67 years)	6,116	4,300
Second mortgage loans bearing interest at floating rates which at December 31, 2010 are between 3.50% and 5.25% (2009 - nil), with a weighted average interest rate of 5.13% (2009 - nil) and maturing between 2011 and 2017 with a weighted average term to maturity of 0.65 years.	4,565	-
	229,231	219,342
Transaction costs	(1,328)	(1,454)
Mortgage premiums	-	20
	$ 227,903	$ 217,908

The weighted average interest rate for the aggregate loan balance is 5.34 percent (2009 - 5.64 percent), and the weighted average term to maturity is 5.19 years (2009 - 5.62 years). Mortgage loans are secured by mortgage charges registered against the title of specific income properties, assignments of book debts, assignments of rents and repayment guarantees.

Mortgage premiums represent the difference between the actual mortgages assumed on property acquisitions and the fair value of the mortgages at the date of purchase, less accumulated amortization. Mortgage premiums are amortized over the term of the respective mortgage (note 13).

(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

10. Mortgage loans payable (continued):

The Trust is required to maintain debt service ratios for some loans in the mortgage loan portfolio. As of December 31, 2010, the Trust did not meet the debt service ratio for one continuing operations mortgage in the amount of $2.6 million (2009 – four mortgages in the amount of $11.2 million). Although this loan is treated as a demand loan and is reflected as repayable in 2011 in the following calculation, it is anticipated that the lender will permit the mortgage to be repaid in accordance with its original maturity date fiscal 2013.

Future principal payments, excluding amortization of transaction costs as at December 31, 2010 are as follows:

2011	$	38,619
2012		53,734
2013		39,345
2014		9,755
2015		46,576
Thereafter		41,202

11. Convertible debentures:

On March 29, 2007 and April 5, 2007, the Trust issued Series C convertible debentures in the aggregate amount of $48.3 million. The debentures bear interest at 7.5 percent and mature on March 31, 2012. Interest is payable semi-annually on March 31 and September 30. The debentures are convertible into units at the request of the holder at a conversion price per unit of $27.45 (pre-consolidation price per unit of $3.05). The debentures may not be redeemed by the Trust prior to August 31, 2010, except in the event of the satisfaction of certain conditions after a change in control has occurred. On or after March 31, 2010 but prior to March 31, 2011, these debentures may be redeemed by the Trust in whole or in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, on a notice of not more than 60 days and not less than 30 days prior, provided that the volume-weighted average trading price of the Trust Units on the TSX for the 20 consecutive trading days ending on the fifth trading day immediately preceding the date on which notice of redemption is given is not less than 125% of the conversion price. On or after March 31, 2011, these debentures may be redeemed by the Trust in whole or in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, on a notice of not more than 60 days and not less than 30 days prior. The Trust may redeem the debentures for cash consideration or in exchange for units of the Trust based on the conversion price.

HUNTINGDON REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009
(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

11. Convertible debentures (continued):

On March 22, 2010 the Trust redeemed the Series A convertible debentures on maturity for face value of $5.25 million. On June 29, 2010 the Trust redeemed the Series B convertible debentures on maturity for face value of $5.321 million.

On April 8, 2010, the Trust announced a normal course issuer bid for the Series C convertible debentures ("Debentures") which, under the rules of the Toronto Stock Exchange, the Trust may acquire up to $4.748 million principal amount of Debentures during the period commencing on April 12, 2010 and ending on April 11, 2011. During the 12 months ended December 31, 2010, the Trust purchased 2,840 Debentures for approximately $0.3 million which were subsequently cancelled.

The Trust's outstanding convertible debentures as at December 31, 2010 and 2009 are as follows:

December 31, 2010	Cost of borrowing	Debt	Equity	Total
Series C convertible debentures	12%	45,523	8,037	53,560
Transaction costs		(764)	–	(764)
		$ 44,759	$ 8,037	$ 52,796

December 31, 2009	Cost of borrowing	Debt	Equity	Total
Series A convertible debentures	15%	$ 5,173	$ 1,246	$ 6,419
Series B convertible debentures	15%	5,151	1,263	6,414
Series C convertible debentures	12%	44,062	8,084	52,146
		54,386	10,593	64,979
Transaction costs		(1,357)	–	(1,357)
		$ 53,029	$ 10,593	$ 63,622

The accretion of the debt component, which increases the debt component from the initial carrying amount, is included in financing expense (note 13).

The series A and series B convertible debentures were collateralized by a security interest on all the property and assets of the Trust. The security interest ranked senior to the series C convertible debentures and trust units and subordinate to mortgage loans payable and related collateral security (note 10). The series C convertible debentures are unsecured.

HUNTINGDON REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009
(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

12. Intangible liabilities:

December 31, 2010		Cost		Accumulated amortization		Net book value
Below-market leases	$	2,666	$	2,144	$	522

December 31, 2009		Cost		Accumulated amortization		Net book value
Below-market leases	$	3,290	$	2,614	$	676

Amortization of below-market leases was $0.2 million (2009 - $0.4 million) for the year ended December 31, 2010 and is credited to rental revenue from income properties.

13. Financing expense:

Financing costs are comprised of the following:

		2010		2009
Mortgage loan interest	$	12,861	$	12,953
Interest on convertible debentures		3,944		4,468
Accretion of the debt component of convertible debentures		1,971		2,171
Change in value of interest rate swap		345		4
Unrealized gain on investment		(105)		-
Amortization of mortgage premiums		(20)		(39)
Amortization of transaction costs		1,341		1,453
	$	20,337	$	21,010

14. Distribution of income:

The determination to declare and make payable distributions from the Trust is at the discretion of the Board of Trustees of the Trust and, until declared by the Board of Trustees, the Trust has no contractual requirement to pay cash distributions to the Unitholders of the Trust. During the year ended December 31, 2010, the Board of Trustees declared and paid distributions of $1.8 million (2009 - nil).

(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

15. Units:

	2010			2009		
	Units		Amount	Units		Amount
Outstanding, beginning of year	8,065,468	$	176,513	8,065,468	$	176,513
Issuance of trust units:						
Acquisition of IAT (note 4)	7,540,615		33,933	–		–
Deferred units exercised	84,407		503	–		–
Unit options exercised	11,000		64	–		–
Units purchased and cancelled per normal course issuer bid	(1,002,675)		(13,464)	–		–
Outstanding, end of year	14,698,815	$	197,549	8,065,468	$	176,513

Subsequent to the acquisition of the issued and outstanding units of IAT on January 1, 2010 (note 4), the Trust completed the consolidation of its units on a nine for one basis on February 12, 2010. The above noted are stated at the consolidated values.

On April 8, 2010, the Trust announced a normal course issuer bid for the units of the Trust which, under the rules of the Toronto Stock Exchange, the Trust may acquire up to 1,431,387 units during the period commencing on April 12, 2010 and ending on April 11, 2011. During the year ended December 31, 2010, the Trust purchased 1,002,675 units for $6.2 million which were subsequently cancelled resulting in a reduction in unit capital of $13.5 million and an increase in contributed surplus of $7.3 million.

16. Per unit calculations:

Basic per unit information is calculated based on the weighted average number of units and deferred units (note 18) outstanding for the year. The diluted per unit information is calculated based on the weighted average diluted number of units for the year, considering the potential exercise of outstanding unit options and deferred units (not yet vested) to the extent that the unit options and deferred units are dilutive and the potential conversion of outstanding convertible debentures to the extent that the debentures are dilutive.

(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

16. Per unit calculations (continued):

Income (loss) per unit calculations are based on the following:

		2010		2009
Loss from continuing operations attributable to unitholders:				
Loss for the year	$	(5,385)	$	(12,503)
Weighted average number of units and diluted number of units		15,507,575		8,171,325
Income from discontinued operations attributable to unitholders:				
Income for the year	$	7,649	$	5,070
Weighted average number of units and diluted number of units		15,507,575		8,171,325
Income (loss) and comprehensive income (loss) attributable to unitholders:				
Income (loss) and comprehensive income (loss) for the year	$	2,264	$	(7,433)
Weighted average number of units and diluted number of units		15,507,575		8,171,325

Units outstanding have been adjusted on a nine for one basis as a result of the unit consolidation on February 12, 2010 (note 15). The effect of the convertible debentures (note 11), unit options (note 17) and deferred units not yet vested (note 18) were not included in the diluted net income per unit calculation as the effect would have been anti-dilutive.

17. Unit option plan:

The Trust may grant options to the Trustees, senior officers, investor relations consultants and technical consultants of the Trust. The maximum number of units reserved for issuance under the unit option plan will be limited to 5 percent of the total number of issued and outstanding units. The Trustees shall set the exercise price at the time that an option is granted under the plan, which exercise price shall not be less than the discounted market price of the units as determined under the policies of the Exchange on the date of grant.

(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

17. Unit option plan (continued):

A summary of the Trust's unit options for the years ended December 31 and the changes during the years are as follows:

	2010		2009	
	Units	Weighted average exercise price	Units	Weighted average exercise price
Outstanding, beginning of year	153,000	20.43	194,889	21.42
Granted	66,000	5.85	-	-
Exercised	(11,000)	5.85	-	-
Expired or cancelled	(80,778)	20.85	(41,889)	24.12
Outstanding and exercisable, end of year	127,222	13.86	153,000	20.43

As a result of the unit consolidation effective February 12, 2010, the number of units issuable upon exercise of the Trust's options and their exercise price were also adjusted on a nine for one basis (note 15). Comparative numbers for 2009 have also been restated on this basis.

On February 16, 2010, the Trust granted options to Trustees to acquire an aggregate of 66,000 units at $5.85 per unit. The unit options vest immediately and expire February 16, 2020. There was nominal compensation expense of $1 associated with these options.

The range of exercise prices for options outstanding at December 31, 2010 (post consolidation), are as follows:

Exercise price	Number outstanding	Remaining contractual life	Number exercisable
$ 5.85	55,000	9.1 years	55,000
19.17	44,444	2.2 years	33,000
21.24	27,778	1.5 years	27,778

18. Deferred unit plan:

The Trust has a deferred unit plan available for trustees, officers, employees, or consultants of the Trust under which, any trustee, officer, employee, or consultants of the Trust can elect to have their annual bonus, annual board retainer or board meeting fees paid in the form of deferred units. The fair value based method of accounting is applied to all unit-based compensation. The fair value of deferred units granted is estimated on the date of grant using the market value of units of the Trust. Compensation expense for deferred units that vest immediately is recognized when the units are granted, otherwise compensation expense is recognized over the vesting period. On the redemption of deferred units, the accumulated deferred unit value is credited to the units of the Trust.

The number of deferred units received by a participant is determined by dividing the amount of the annual bonus, annual board retainer or board meeting fees as applicable to be paid in the form of deferred units on that date by the fair market value of the Trust's units.

Deferred units granted to Trustees, all of whom have elected to receive their fees in units rather than cash, totaled 58,750 for the year ended December 31, 2010 (2009 – 121,027). Deferred units granted to employees totaled 93,732 for the year ended December 31, 2010 (2009 – nil) including 28,917 of which were issued as payment of an accrued bonus included in the acquired liabilities of IAT as at January 1, 2010 and 64,815 which related to a long-term incentive program as noted below. The 28,917 deferred units granted to employees vested immediately and were issued during the first quarter of 2010. During the year ended December 31, 2010, a total of 39,287 deferred units were exercised by Trustees on retirement. At December 31, 2010, a total of 187,398 (2009 – 167,934) deferred units were outstanding and fully vested.

In February 2010, the Trustees implemented a long-term incentive program which provided deferred units to employees which vest over a three year period with 25% of units issued vesting immediately. During fiscal 2010, 64,815 deferred units were granted under the long-term incentive program with 16,203 vesting immediately which were subsequently exercised. The fair value of these deferred units were estimated on the date of the grant using the Black-Scholes option pricing model using a weighted average risk-free interest rate of 1.4% over an expected life of 3 years with an expected volatility rate of 103% and an expected yield of 5.20%.

The Trust expensed $0.5 million (2009 - $0.3 million) for the year ended December 31, 2010 of unit based compensation related to the deferred unit plan for Trustees and employees which was included in trust expense in the consolidated statements of income (loss) and comprehensive income (loss).

(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

19. Co-ownership:

The Trust participates in co-ownerships with other parties at select properties in Winnipeg, Manitoba including two industrial properties at 60 - 94 Hoka Street and 61 – 155 Paramount Road, a land leased property named Airport Place, one retail property named Northgate Shopping Centre, and one office property at 220 Portage Ave. The Trust accounts for its interests using the proportionate consolidation method. The following amounts represent the Trust's proportionate share of assets, liabilities, revenue, property operating costs, and cash flows therein.

	2010	2009
Balance sheet:		
Assets	$ 25,875	$ 25,703
Liabilities	19,809	19,165
Income statement:		
Revenue	5,778	6,009
Property operating costs	2,947	3,086
	2,831	2,923
Cash flows:		
Cash flows provided by operating activities	993	725
Cash flows used in investing activities	(225)	(197)
Cash flows used in financing activities	(361)	(539)

20. Related party transactions:

Related party transactions have occurred in the normal course of operations and are measured at the exchange amount which is the amount established and agreed by the related parties. SCPL and, its parent company, 2668921 Manitoba Ltd. were related parties of the Trust by virtue of the fact that all outstanding shares of 2668921 Manitoba Ltd. are owned by the family trust of a former officer and trustee of the Trust.

Property management agreement:

In 2005, the Trust entered into a property management agreement, for an initial term expiring February 23, 2010, with SCPL. Under the property management agreement, SCPL administered the day-to-day operations of the Trust's portfolio of income properties. The Trust paid property management fees equal to 4 percent of gross receipts from the income properties owned by the Trust. SCPL was also entitled to leasing fees on new leases of 3 percent to 5 percent of base rental payments and leasing fees on renewals of 1 ½ percent to 2 ½ percent of base rental payments and to tenant improvement and renovation fees equal to 5 percent of the total cost of such work. The property management agreement was not renewed by the Trust upon expiry on February 23, 2010 as the Trust internalized all property management services.

(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

20. Related party transactions (continued):

The following schedule reflects fees incurred by the Trust for property management services during the fiscal years December 31, 2010 and 2009:

	2010	2009
Property management fees	$ 269	$ 1,829
Leasing fees	18	1,298
Renovation fees	4	208
	$ 291	$ 3,335

Services agreement:

The Trust entered into a services agreement, for an initial term expiring February 23, 2010, with SCPL which could be cancelled with 30 days written notice. Under the services agreement, SCPL provided the Trust management and support services for the administration of the day-to-day activities of the Trust. This agreement was terminated on February 12, 2010 by the Trust and the Trust has internalized all management and support services.

Fees for services rendered by SCPL to the Trust pursuant to the services agreement were calculated at 0.3 percent of gross book value of the Trust, excluding cash. Service fee expense of $0.2 million (2009 - $1.6 million) was incurred for the year ended December 31, 2010 and is included in trust expense.

Consolidated Real Estate Services Inc. (CRESI):

SCPL provided executive management services and other assistance to CRESI and received an annual cost recovery fee of $150. This agreement was terminated on January 1, 2010 and cost recovery of nil (2009 - $150) is included in the property management costs within discontinued operations.

CRESI provided accounting services in regard to 15 condominium properties managed by SCPL in 2009, the cost of which was reimbursed. During 2010, the cost of services reimbursed was nil (2009 - $71).

(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

21. Supplemental cash flow information:

Year ended December 31,	2010	2009
Interest paid on mortgage financing:		
Continuing operations	$ 12,767	$ 12,985
Discontinued operations	862	5,022
Total	13,629	18,007
Interest paid on convertible debentures	3,944	4,523
Income taxes paid – continuing operations	152	-
Income taxes recovered – discontinued operations	-	119

22. Risk management and fair values:

Risk management:

In the normal course of business, the Trust is exposed to financial risk that arises from its financial instruments, including fluctuations in interest rates and in the credit quality of its tenants. Management's involvement in operations helps identify risks and variations from expectations. The Trust does not manage risk through the use of hedging transactions. As a part of the overall operation of the Trust, management takes steps to avoid undue concentrations of risk. The Trust manages the risks, as follows:

Liquidity risk:

Liquidity risk arises from the possibility of the Trust not having sufficient debt and equity capital available to satisfy its debt and other financial obligations as they mature.

The Trust's principal liquidity needs arise from working capital requirements, debt servicing and repayment obligations, planned funding of maintenance, leasing costs and distributions to Unitholders, and possible property acquisition funding requirements.

The above liquidity needs are funded from cash flows from operating the property portfolio, with the exception of debt repayment obligations and property acquisition funding requirements. These are funded from refinancing the Trust's maturing debt or financing unencumbered properties. The particular features and quality of the underlying assets being financed and the debt market parameters existing at the time will affect the success of this strategy.

(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

22. Risk management and fair values (continued):

There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to the Trust or on any terms at all. The risk associated with the refinancing of maturing debt is mitigated as the maturity dates of the mortgage portfolio are staggered over a number of years and, by limiting the use of floating interest rate debt. As at December 31, 2010, the weighted average term to maturity of the mortgage portfolio is 5.19 years (2009 - 5.62 years).

The following are the estimated maturities of the Trust's financial liabilities from continuing operations, excluding interest rate swap liability, with convertible debentures disclosed at their face value as at December 31, 2010:

	Total	Less than 1 year	1 – 3 years	4 - 5 years	After 5 years
Accounts payable and accrued liabilities	$ 13,454	$ 13,454	$ –	$ –	$ –
Mortgage loans payable	229,231	38,619	93,079	56,331	41,202
Convertible debentures	48,016	–	48,016	–	–
Total	$ 290,701	$ 52,073	$ 141,095	$ 56,331	$ 41,202

Market risk:

Market risk is the risk that changes in market prices will have an effect on future cash flows associated with financial instruments. Market risk comprises three types of risk: interest rate risk, currency risk, and other price risk.

Interest rate risk:

Interest rate risk is the risk that changes in the market interest rates may have an effect on the cash flows associated with some financial instruments, known as interest rate cash flow risk, or on the fair value of other financial instruments, known as interest rate price risk.

Interest rate cash flow risk is minimized by having the majority of the mortgage loans on fixed term arrangements. In addition, the maturity dates of the mortgages are staggered over a number of years to reduce the exposure in any one year.

(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

22. Risk management and fair values (continued):

The Trust uses interest rate swap agreements in order to fix interest rates on a portion of floating rate mortgages on income properties. The interest rate swap agreement entitles the Trust to receive interest at floating rates and pay interest at a fixed rate. The Trust has entered into the following interest rate swap agreements at December 31, 2010:

Notional Amount	Effective interest rate	Maturity Date	Non-cash unrealized gain (loss) for year ended December 31, 2010	Cumulative unrealized loss at December 31, 2010
$4.8 million	5.89%	3-Jan-25	$ (0.1) million	$(0.6) million
9.2 million	6.42%	26-Apr-13	(0.2) million	(0.2) million
$ 14.0 million	6.20%		$ (0.3) million	$ (0.8) million

The Trust has entered into the following interest rate swap agreements at December 31, 2009:

Notional Amount	Effective interest rate	Maturity Date	Non-cash unrealized loss for year ended December 31, 2009	Cumulative unrealized loss at December 31, 2009
$5.0 million	5.89%	3-Jan-25	$ (0.5) million	$(0.5) million

The cumulative unrealized loss as at December 31, 2010 and 2009 is included in accounts payable and accrued liabilities.

The Trust has floating rate mortgages on income properties (excluding the mortgage associated with the interest rate swap arrangement) comprised of $40.0 million, or 17.40 percent (2009 - $43.1 million and 19.66 percent) of the total mortgage loans on income properties as at December 31, 2010. Had the interest rate changed by a differential of 100 basis points, financing cost would have changed by approximately $0.4 million (2009 - $0.4 million).

Currency risk:

Currency risk is the risk that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. The Trust has no significant transactions denominated in foreign currency and is not exposed to foreign currency risk.

(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

22. Risk management and fair values (continued):

Other price risk:

Other price risk is the risk that changes in market prices, including commodity or equity prices, will have an effect on future cash flows associated with financial instruments. The cash flows associated with financial instruments of the Trust are not exposed to any significant other price risk.

Credit risk:

Credit risk arises from the possibility that tenants may be unable to fulfill their lease commitments. For a financial asset, this is typically the gross carrying amount, net of any amounts offset and any impairment losses. The Trust controls risks by avoiding undue concentration of assets in any geographic location, in any industry or with any specific tenants.

The Trust has credit policies to address credit risk, which are applied during lease negotiations and which may include the analysis of the financial position of the debtor and review of credit limits. The Trust also may review credit history and credit performance as part of the lease negotiation process. An allowance for doubtful accounts or other impairment provisions are established based upon factors surrounding credit risk, historical trends and other information.

A financial asset is past due when a debtor has failed to make a payment when contractually due. An aging of overdue receivables, is as follows:

	2010	2009
Accounts receivable:		
0 to 30 days overdue	$ 3,579	$ 1,902
30 to 60 days overdue	242	279
More than 60 days overdue	2,246	3,315
Allowance for doubtful accounts	(1,518)	(1,192)
	$ 4,549	$ 4,304

The following is an analysis of bad debts charges to income:

	2010	2009
Amounts charged to income	$ 177	$ 1,532
Percent of rental revenue	0.25%	2.67%

(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

22. Risk management and fair values (continued):

Fair value:

Financial instruments, excluding held-for-trading financial instruments, include accounts receivable, future rent receivable, vendor take-back mortgage receivable, accounts payable and accrued liabilities, mortgage loans payable, the debt component of convertible debentures payable. Except for mortgage loans payable and the debt component of convertible debentures, the carrying values of these financial instruments approximate fair value due to the short term nature of financial instruments.

The $227.9 million (2009 - $217.9 million) carrying value of the mortgage loans payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of instruments. The fair value of mortgage loans payable has been estimated based on the current market rates for mortgages with similar terms and conditions. The estimated fair value of mortgage loans payable as at December 31, 2010 is $230 million (2009 - $222 million).

The $44.8 million (2009 - $53.0 million) carrying value of the debt components of convertible debentures payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of instruments. The fair value of the debt component of convertible debentures payable has been estimated based on the current market rates for debentures with similar terms and conditions. The estimated fair value of the face value of the convertible debentures as at December 31, 2010 is $48.5 million (2009 - $55.0 million).

The fair value hierarchy of financial instruments measured at fair value on the consolidated balance sheet at December 31, 2010 is as follows:

	Level 1	Level 2	Level 3
Financial assets:			
Cash	$ 8,046	$ –	$ –
Restricted cash	4,584	–	–
Investment	2,676	–	–
Financial liabilities:			
Interest rate swaps	–	854	–

HUNTINGDON REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009
(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

23. Management of capital:

The capital structure of the Trust, excluding discontinued operations, is comprised of the following:

	2010	2009 (restated)
Mortgage loans payable	$ 227,903	$ 217,908
Convertible debentures: Debt component	44,759	53,029
Unitholders' equity	135,523	106,027
	$ 408,185	$ 376,964

The Trust manages capital in order to safeguard its ability to continue as a going concern; to ensure that returns are provided to Unitholders, and to ensure an appropriate balance of risk and return.

The overall capital management strategy addresses the following considerations:

- The equity component of acquired properties is primarily funded from the proceeds of trust units or convertible debentures.
- Mortgage debt financing is arranged to optimize the leveraged returns from the real estate investment portfolio.
- Total mortgage debt financing is maintained within the overall debt limits as established by the Declaration of Trust. The Declaration of Trust allows total mortgage indebtedness of the Trust up to 75 percent of the book value of all properties.
- The Trust will endeavour to obtain a fixed rate of interest on mortgage financing.
- Mortgage due dates are structured to reflect the nature of the leases and the properties being financed and debt maturity dates will be staggered, to the extent practicable, in order to manage refinancing risk.

23. Management of capital (continued):

The Trust monitors capital from time-to-time using a variety of measures which are applicable to the real estate industry. Monitoring procedures are typically performed as a part of the overall management of operations and are performed with the goal of enhancing the ability of the Trust to access capital and/or reduce the cost of capital. In order to maintain or adjust the capital structure the Trust may issue units, debentures or mortgage debt; adjust the amount of distributions paid to unitholders; return capital to unitholders; or reduce debt.

24. Segmented financial information - continuing operations:

The assets are comprised in and revenue is derived from the operation of light industrial, office and retail properties as well as the operations of a property management company. Consolidated schedule 1 summarizes the segmented reporting by property type.

25. Commitments and Contingencies:

(a) On December 6, 2010, the Trust made a proposal to Fisher Communications, Inc. ("Fisher"), which is listed on the NASDAQ, to acquire all of the outstanding shares of Fisher common stock. Under the proposal, Fisher shareholders would be given the option of taking 3.58 units of the Trust for each outstanding share of Fisher or 1.79 units of the Trust and $12 in cash for each outstanding share of Fisher. When made, the proposal implied a value of $23.99 per share based on the Trust's December 3, 2010 closing price of $6.7, an approximate 18% premium to the Fisher closing price on December 3, 2010 and a 25% premium to Fisher's volume weighted average price during the preceding month. During fiscal 2010, the Trust purchased shares of Fisher with an aggregate fair value at December 31, 2010 of $2.7 million with an unrealized gain recognized of $0.1 million and included within finance expense in the consolidated statements of income (loss) and comprehensive income (loss).

(b) During the third quarter of 2010, a $2.1 million court judgment was held against the Trust and other parties relating to an income property which had been sold by the Trust during fiscal 2009. The Trust subsequently negotiated with the respective parties and on February 10, 2011 paid a final settlement of $1.4 million which was accrued as at December 31, 2010 and included in trust expense in the consolidated statements of income (loss) and comprehensive income (loss). There is a potential contingency against the Trust for the balance paid by the other parties of $0.6 million if the other parties are successful in their Notice of Appeal. The final outcome with respect to the other parties Notice of Appeal cannot be predicted at the present time and no provision has been made by the Trust.

(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

25. Commitments and Contingencies (continued):

(c) In the normal course of operations, the Trust will become subject to a variety of legal and other claims. Management and legal counsel evaluate all claims on their apparent merits, and accrue management's best estimate of the estimated costs to satisfy such claims. Although the outcome of legal and other claims are not reasonably determinable, management believes that any such outcome will not be material.

(d) The Trust leases land from the Government of Canada and local airport authorities at airports in Western Canada. These leases are for varied terms, in certain cases with rights of renewals and rights of first refusal, extending for periods expiring between 2016 and 2056.

Future minimum operating lease payments as at December 31, 2010, using current established rates, are as follows:

2011	$	4,374
2012		4,392
2013		4,407
2014		4,412
2015		4,412
Thereafter		40,785

(e) The Trust's land leases may require decommissioning of the attached building at the end of the land lease term, and as a result, a provision for this asset retirement obligation has been established, considering the cost of decommissioning, discount rate and the likelihood of being required to demolish buildings at the end of the land lease term. The Trust estimates that the undiscounted amount of cash flows required to settle the asset retirement obligations is approximately $0.7 million as at December 31, 2010 and may be incurred between 2016 and 2029. A discount rate of 8% as at December 31, 2010 was used to calculate the fair value of the asset retirement obligations. At December 31, 2010, the asset retirement obligation included in accounts payable and accrued liabilities aggregates $0.3 million on a discounted basis.

(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

26. Discontinued operations:

During the year ended December 31, 2010, the Trust has sold 7 (2009 – 7) income properties and the property management operations of Consolidated Real Estate Services Inc., a wholly-owned subsidiary. In addition, in fiscal 2010, the Trust has entered into a binding sale agreement in respect of an income property and have included two further income properties as held for sale at December 31, 2010. The properties have been included in the consolidated financial statements as discontinued operations.

(a) Properties and operations sold:

Closing date	Property	Gross sale proceeds	Gain (loss) on sale	Mortgage loan payable	Property type
May 1, 2009	City Place, Winnipeg, MB	$ 81,500,000	$ 2,917,447	$ 55,103,112	Office
May 1, 2009	1250 Steeles, Brampton, ON	5,300,000	(1,148,720)	3,286,307	Retail
June 1, 2009	Westland Plaza, Okotoks, AB	3,750,000	784,689	2,643,980	Retail
July 1, 2009	Southford Mall, Fort Saskatchewan, AB	1,725,000	230,976	1,025,350	Retail
September 1, 2009	Willow Creek, Peterborough, ON	7,250,000	330,253	4,446,203	Retail
September 1, 2009	Douglasview Centre, Calgary, AB	3,900,000	569,480	2,514,899	Retail
October 1, 2009 Winnipeg, MB	Marion Street, Business Park	3,875,000	1,221,440	1,762,463	Light industrial
February 22, 2010	67 Scurfield, Winnipeg, MB	4,200,000	453,000	2,767,273	Office
March 9, 2010	351 Smith Street, Winnipeg, MB	2,050,000	738,000	1,102,312	Parking
April 1, 2010	Vista Landing, Calgary, AB	12,015,000	3,914,000	3,390,000	Retail
April 23, 2010	Consolidated Real Estate Services Inc.	450,000	80,000	–	Property Management
June 28, 2010	1300 Church, Winnipeg, MB	1,600,000	628,000	980,000	Industrial
June 3, 2010	170 Water Street, Winnipeg, MB	3,500,000	1,361,000	1,545,000	Parking
August 3, 2010	Chemainus properties, Chemainus, BC	4,600,000	522,000	2,526,000	Retail
November 8, 2010	336 Young, Winnipeg, MB	455,000	1,000	235,000	Parking

(b) Property under binding sale agreements:

Closing date	Property/Entity	Gross sale proceeds	Estimated gain (loss) on sale	Mortgage loan payable	Property type
February, 2011	Deer Park, Red Deer, AB	$ 16,100	$ 4,500	$ 6,700	Retail

(c) Properties held for sale:

Property/Entity	Property type
125-185 First Street East, Cochrane, AB	Retail
Harbourview, Kenora, ON	Retail

(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

26. Discontinued operations (continued):

(d) Discontinued interim loan:

In 2009 in accordance with the loan agreements, $23.9 million of interim financing was retired from the proceeds of property sales which closed in 2010 and are therefore required to be reflected in 2009 discontinued operations.

(e) Debt service ratio:

The Trust is required to maintain debt service ratios for some loans in the mortgage loan portfolio. As of December 31, 2010, the Trust did not meet the debt service ratio for one discontinued operations mortgage in the amount of $1.9 million.

The following table discloses the balance sheets and statements of income (loss) for discontinued operations.

	2010	2009
Consolidated Balance Sheets:		
Assets:		
Income properties	$ 13,199	$ 33,617
Intangible assets	224	925
Other assets	511	627
	13,934	35,169
Liabilities:		
Mortgage loans payable	9,157	21,984
Intangible liabilities	-	34
Accounts payable and accrued liabilities	1,029	767
Future income tax liability	62	-
	10,248	22,785
Net investment in properties held for sale	$ 3,686	$ 12,384

HUNTINGDON REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009
(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

26. Discontinued operations (continued):

	2010	2009
Consolidated Statements of Income:		
Revenue:		
Rentals from income properties	$ 3,539	$ 11,325
Interest and other income	-	15
Property management revenue	655	2,864
Expenses:		
Property operating costs	1,151	4,871
Property management costs	660	2,900
Finance expense	956	4,163
Trust expense	941	302
Amortization	591	2,002
Loss before gain on sale and income taxes	(105)	(34)
Gain on sale	8,531	4,906
Recovery of (provision for) income taxes:		
Current	-	42
Future	(777)	156
	(777)	198
Income from discontinued operations	$ 7,649	$ 5,070

	2010	2009
Consolidated Statements of Cash Flows:		
Income from discontinued operations	$ 7,649	$ 5,070
Gain on sale of income properties	(8,531)	(4,906)
Amortization and accretion	628	2,122
Future income tax (recovery) expense	777	(156)
Change in non-cash operating balances	252	(7,323)
Expenditures on deferred leasing expenses	(205)	(1,202)
Debt principal repaid	(448)	(2,021)
Additions to income properties	(15)	(1,727)
Proceeds of sale, net of mortgages retired and assumed	18,236	10,180
	$ 18,343	$ 37

HUNTINGDON REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009
(expressed in thousands of Canadian dollars, except number of units and per unit amounts)

26. Discontinued operations (continued):

The following tables provide a reconciliation of the change in continuing and discontinued operations as at and for the year ended December 31, 2009:

Consolidated Balance Sheets:

	As previously reported	Reclass from continuing operations	Discontinued operations 2009
Assets:			
Income properties	$ 12,727	$ 20,890	$ 33,617
Other assets	910	642	1,552
	13,637	21,532	35,169
Liabilities:			
Mortgage loans payable	7,258	14,726	21,984
Other liabilities	517	284	801
	7,775	15,010	22,785
Net investment in properties held for sale	$ 5,862	$ 6,522	$ 12,384

Consolidated Statements of Income:

	As previously reported	Reclass from continuing operations	Discontinued operations 2009
Revenue	$ 11,345	$ 2,859	$ 14,204
Expenses	11,707	2,531	14,238
Income (loss) before gain on sale and income taxes	(362)	328	(34)
Gain on sale	4,906	-	4,906
Recovery of income taxes	198	-	198
	$ 4,742	$ 328	$ 5,070

Consolidated Statements of Cash Flows:

	As previously reported	Reclass from continuing operations	Discontinued operations 2009
Discontinued operations	$ (582)	$ 619	$ 37

27. Discontinued operations (continued):

The adjustments to the comparative figures in the consolidated balance sheet,s statements of income and statements of cash flows of the Trust are related to the reclassification from continuing operations of properties sold during fiscal 2010 or classified as held for sale at December 31, 2010.

27. Subsequent events:

(a) From January 1, 2011 through March 31, 2011, the Trust purchased 428,712 Trust units for approximately $2.9 million per the normal course issuer bid effective through April 11, 2011 (note 15). These purchases completed the maximum allowable purchases available under the terms of the normal course issuer bid.

(b) On January 24, 2011, the Trust received additional financing of $8.4 million.

(c) On February 2, 2011, the Trust completed the sale of Deer Park, a retail property located in Red Deer, Alberta (note 26).

HUNTINGDON REAL ESTATE INVESTMENT TRUST

Consolidated Schedule 1 - Segmented Information by Property Type

Years ended December 31, 2010 and 2009
(expressed in thousands of Canadian dollars)

	Light industrial	Office	Retail	Land Lease	Property total	Trust	Total 2010
Rentals from income properties	$ 7,915	$ 24,443	$ 16,916	$ 21,400	$ 70,674	$ –	$ 70,674
Interest and other income	97	662	88	219	1,066	89	1,155
Operating costs	2,022	12,962	8,094	10,791	33,869	–	33,869
Operating income	5,990	12,143	8,910	10,828	37,871	89	37,960
Financing expense	2,494	5,778	3,376	2,070	13,718	6,619	20,337
Trust expense	–	–	–	–	–	6,189	6,189
Amortization	2,632	4,581	5,801	8,230	21,244	–	21,244
Bargain purchase gain	–	–	–	–	–	(2,393)	(2,393)
Income (loss) from continuing operations before taxes	$ 864	$ 1,784	$ (267)	$ 528	$ 2,909	$ (10,324)	$ (7,415)
Total assets, December 31, 2010	$ 70,264	$ 139,908	$ 124,672	$ 86,974	$ 421,818	$ 5,334	$ 427,152

(restated)	Light industrial	Office	Retail	Land Lease	Property total	Trust	Total 2009
Rentals from income properties	$ 8,740	$ 24,521	$ 17,020	$ 3,110	$ 53,391	$ –	$ 53,391
Interest and other income	51	1,040	295	4	1,390	32	1,422
Operating costs	2,442	13,166	9,363	1,261	26,232	–	26,232
Operating income	6,349	12,395	7,952	1,853	28,549	32	28,581
Financing expense	2,342	6,366	3,623	1,432	13,763	7,247	21,010
Trust expense	430	73	225	4	732	6,301	7,033
Amortization	2,499	5,154	5,595	1,236	14,484	–	14,484
Income (loss) from continuing operations before taxes	$ 1,078	$ 802	$ (1,491)	$ (819)	$ (430)	$ (13,516)	$ (13,946)
Total assets, December 31, 2009	$ 68,514	$ 141,263	$ 134,208	$ 15,924	$ 359,909	$ 15,007	$ 374,916

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